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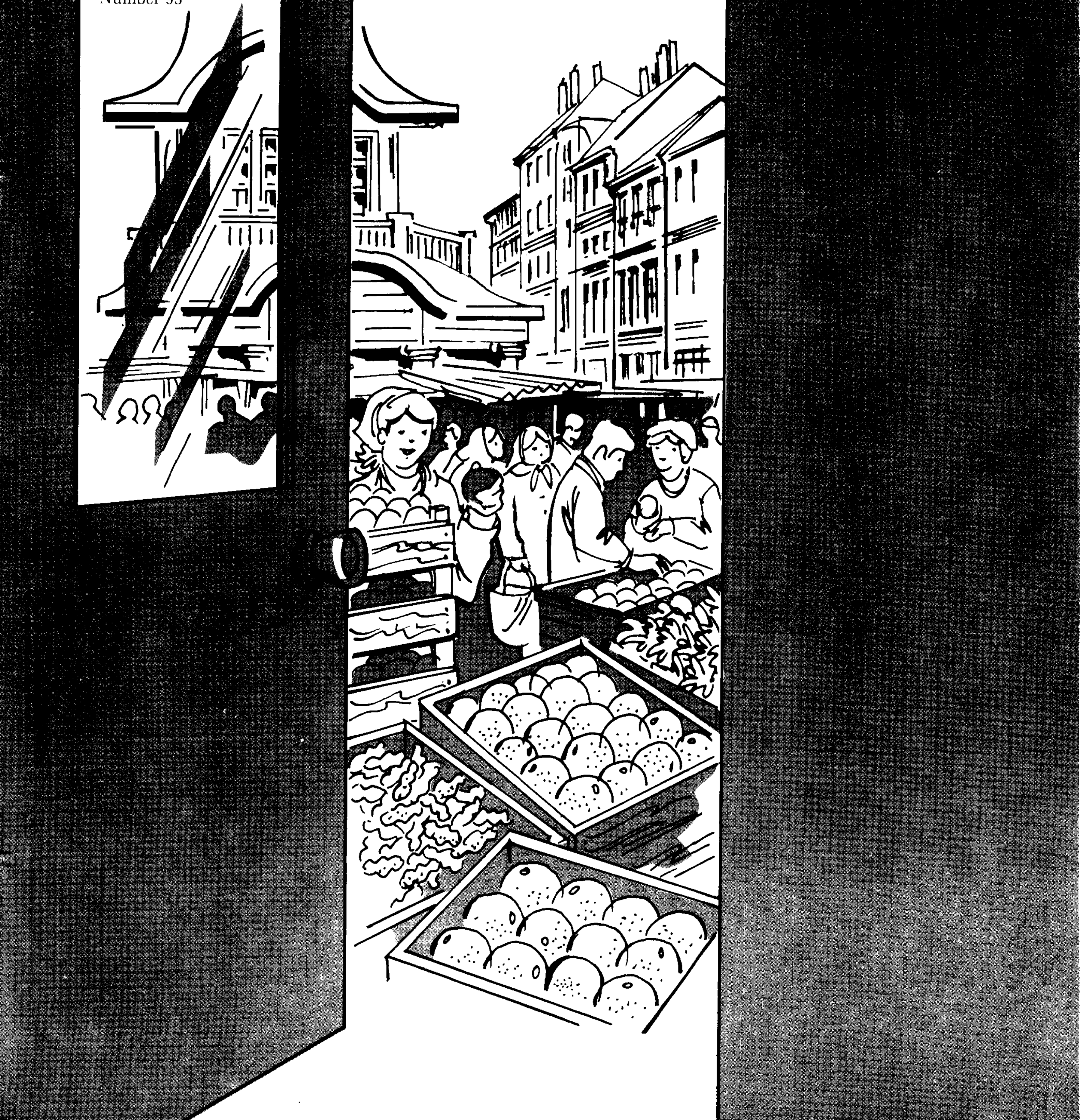
Guide for Prospec... Agricultural Coop... ...porters



Abstract

Guide for Prospective Agricultural Cooperative Exporters

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This report describes the different aspects of exporting that a U.S. agricultural cooperative must consider to develop a successful export program. First, the steps involved in making the decision to export are covered. Then, information on various sources of assistance is given, along with information on how to contact them. Next, features of export marketing strategy-the export plan, sales outlets, market research, product preparation, promotion, and government export incentives-are discussed. Components of making the sale-the terms of sale, pricing, export finance, and regulatory concerns-are also included. Finally, postsale activities-documentation, packing, transportation, risk management, and buyer relations-are described.

Keywords: cooperatives, agricultural exports.

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Preface

This report is solely a guide-not a complete manual or blueprint of operations-for any individual cooperative wishing to export. Its objectives are to **(1)** help co-op management, personnel, and members with little or no experience in exporting to gain a better understanding of the export process, and (2) provide a basic reference tool for both experienced and novice exporters.

As a guide, this report is not intended for use in resolving misunderstandings or disputes that might arise between parties involved in a particular export transaction. Nor does the mention of a private firm or product constitute endorsement by USDA.

The author acknowledges the contribution of Donald E. Hirsch.[1]

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[1] Donald E. Hirsch, Export Marketing Guide for Cooperatives, U.S. Department of Agriculture, Farmer Cooperative Service, FCS Marketing Research Report 1074, March 1977.

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Highlights

Export markets offer some agricultural cooperatives the chance to significantly increase sales and earnings. Success in domestic sales is one indication that a cooperative may have potential in foreign markets.

The co-op's management, board of directors, and membership should all be fully committed to any export marketing program.

There are several sources of assistance for prospective co-op exporters. The Foreign Agricultural Service of the U.S. Department of Agriculture (USDA) is the major provider of assistance to US. agricultural exporters. The Agricultural Cooperative Service (and other USDA agencies), other Federal agencies, State departments of agriculture, and various private sources are also available to cooperatives seeking assistance with exporting.

Once a cooperative has decided to initiate an export program, an export plan stating constraints, goals, and strategy should be drawn up.

Cooperatives may choose how involved they want to become in the mechanics of their export sales. They may sell either to direct export sales outlets-agents or buyers-or to indirect sales outlets-intermediaries-which then directly export the products themselves.

Cooperatives need to do market research to facilitate the selection of targeted markets.

A cooperative with continuing sales to a selected foreign market will usually be represented by a foreign sales agent in that market. Because of their knowledge and presence in the foreign market, these agents are able to provide many important services for the co-op exporter.

To satisfy the needs of a foreign buyer or to comply with the import regulations of a foreign country, a cooperative may find it necessary to modify its product(s).

Trade shows, direct mailings, price and nonprice promotion, and media advertising are all promotion options that a cooperative can use to develop a foreign market for its products.

Cooperative exporters need to maintain communication and good relations with serious foreign buyers. Personal visits by co-op management and export staff are an important part of this process.

For any export transaction, the cooperative and the foreign buyer must agree on price and other terms of sale-including those for payment and delivery-in the final sales contract.

The National Bank for Cooperatives (CoBank) offers co-op exporters a complete line of international financial services. Many other commercial banks with international departments can also serve the needs of co-op exporters.

Cooperatives must be familiar with both U.S. export regulations and the import regulations of the foreign countries to which they ship products.

Unless a cooperative has its own export department, it may benefit from using the services of an export freight forwarder to handle the details of export shipping, including transportation and documentation.

A cooperative exporter will benefit from practicing risk management—identifying sources and degrees of risk that the co-op faces, analyzing its capacity to absorb losses, and developing strategies to deal with those risks.

Physical risk can be handled through obtaining adequate marine insurance coverage. Commercial and political risks can be minimized by negotiating favorable sales terms with the foreign buyer, checking the foreign buyer's credit, and taking out adequate credit insurance. Foreign exchange risks can be managed by demanding payment in U.S. dollars or by arranging a hedging contract with a commercial bank.

Guide for Prospective Agricultural Cooperative Exporters

MAKING THE DECISION TO EXPORT

There are many good reasons for agricultural cooperatives to consider exporting. By expanding their sales into foreign markets, cooperatives can benefit from economies of scale in processing, marketing, and distribution.

With increased sales, fixed costs can be spread over more units of production, and any excess capacity that exists can be reduced. As a result, a cooperative may find that it can operate more efficiently, lower its costs of production, and become more competitive-even in its domestic markets. A successful export program can significantly increase the earnings of an agricultural marketing cooperative.

Foreign markets may also represent new sources of demand for products that have stable or declining demand in the United States.

In a basic way, export marketing is the same as domestic marketing. The exporter has to sell the products or services that buyers want, and where, when, and how they want them. There are, however, significant differences that must be taken into account by a potential exporting cooperative. Trade barriers, international transportation, documentation, financing, payment collection, insurance, and customs procedures are some of the major aspects of an export transaction that will differ from a domestic transaction.

Although the potential for selling products in foreign markets should be considered, exporting is not always a viable marketing option for a cooperative.

Assessing Export Potential

One of the most basic ways to measure a product's potential in foreign markets is its success in domestic markets. If a cooperative's product has sold well in the United States, there is a good chance that it will be successful in those foreign markets where similar needs and conditions exist. In such situations, there may be little or no need for modifying the product.

Trade statistics and commodity reports can give a preliminary indication of markets for a particular commodity in most countries. Production and trade statistics and situation and outlook reports are available for most commodities from the U.S. Department of Agriculture (USDA). Expert advice on the export potential of a product or commodity is available from USDA's Foreign Agricultural Service (FAS) and from State departments of agriculture. A more detailed discussion of export assistance is given in the next section, "Sources of Assistance."

Once a cooperative has determined that one or more of its products has export potential, more indepth research is necessary for specific targeted foreign markets. This is discussed in "Market Research."

The Decisionmaking Process

The decisionmaking process in an exporting cooperative deserves special consideration, A decision to make an initial trial shipment to a foreign destination appears to be a policy matter requiring board action. A decision to develop a new export program, however, or to significantly change an existing export program more likely requires prior approval by the membership.

Membership should be involved in decisionmaking, but international trade is highly competitive and tends to be more secretive than domestic trade. Premature disclosure of specific market objectives, names of buyers, or exact sales terms may be more helpful to competitors than to a co-op's general membership.

Thus a board of directors must make export policy decisions, review the results of its export program, and keep the membership informed. The board, however, may have to delegate more authority to management and staff responsible for export sales than would be needed for a domestic marketing program. This is generally so because there are fewer persons with the knowledge and expertise to deal with technical problems involved in exporting,

A critically important step in planning an export program is to develop broad consensus among the board of directors and management on the co-op's goals, capabilities, and constraints. Answering the questions in "figure 1 is a good way to start. The questions are presented to help key people in the cooperative focus on important issues to consider before deciding to export.

Figure I--The Export Decision—Issues to Consider[3]

I. Experience

1. With what countries has business already been conducted (or from what countries have inquiries already been received)?
2. Which agricultural commodities or products are mentioned most often?
3. List the sales inquiries of each buyer by product and by country.
4. Is the trend of sales and inquiries up or down?
5. Which U.S. and foreign suppliers are the main competitors?
6. What general and specific lessons have been learned from past export experiences?

II. Management, Staff, Board Members, and Producer-Members

1. Who will be responsible for the organization and staffing of export operations?
2. To what extent is the cooperative now organized and structured to handle exporting operations? Can it administer export sales and arrange for international shipping? Should it join with other cooperatives to pool export efforts?
3.
4. How

program and then stick with the program throughout a trial period of reasonable length? Is strong farm leadership available?

III. Production and Marketing

1. Is an adequate volume of the selected commodity available from interested producers in a relatively compact geographic area?
2. Will it be necessary to build or lease additional port facilities in the co-op's supply area or at a loading port? If so, can these be obtained at locations that are satisfactory with respect to the supply area, inland transportation, export shipping, and other factors?
3. Will filling export orders hurt domestic sales?
4. What will be the costs of additional production?
5. What are the usual problems in the domestic marketing of this commodity (such as wide fluctuations in volume, quality, varieties, or prices of product: inventory carryovers, etc.)? How difficult will it be for the cooperative to handle these problems in serving foreign markets on a continuing basis?
6. How do the costs of handling the commodity and transporting it to a satisfactory loading port compare with those in competing production areas of the United States? How about the relative cost of delivering the commodity to a foreign discharge port?
7.

nec-
essary to develop budget estimates to show anticipated capital requirements, sources of capital, operating costs, payments to members, etc.)
2 What amount of capital can be tied up in export operations?
3 What level of export department operating costs can be supported?
4. How are the initial expenses of export efforts to be allocated?
5. What other new development plans are in the works that may compete with export plans?
6. By what date must an export effort pay for itself?

2 This figure was adapted from A Basic Guide to Exporting, U.S. Department of Commerce, September 1986, p. 3.

Commitment to Exporting

There are different degrees of commitment among cooperatives involved in the export market. Moving from the most aggressive to the most passive approach to export market development, four approaches have been identified: [2]

Export Market Developer - Views export marketing as an integral component of overall marketing strategy and has a long-term commitment to develop foreign customers and serve them on the same basis as domestic customers.

Occasional Exporter - Has occasional export sales, but is willing to regularly commit resources to preserve export marketing options.

Surplus Exporter - Seeks export markets in years of excess domestic supplies.

Passive Exporter - Responds to export opportunities if sought out by foreign buyers, and if there will be little interference with domestic marketing efforts.

All of these approaches are acceptable. The expectations of a cooperative, however, should be in line with its commitment to foreign buyers. Importers will rely on their regular and most committed suppliers first and then fill any additional needs by purchasing from less committed suppliers.

A cooperative also chooses the degree to which it handles each export transaction. It may sell directly to a foreign buyer or indirectly to an intermediary, such as a trading company, which then transacts with foreign buyers.

Direct exporting requires the cooperative to assume greater risks and to handle more of the arrangements, but it may give the cooperative a larger share of the marketing margin. Options available under direct and indirect exporting are thoroughly discussed in "Sales Outlets and Distribution Channels."

SOURCES OF ASSISTANCE

Agricultural cooperatives that are interested in exporting their products to foreign markets may obtain assistance from various sources. The initial problem for a cooperative that has little or no experience in exporting is to determine what information is available and from which sources.

Foreign Agricultural Service

Cooperatives seeking export assistance from the Federal Government should begin their search at the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA). FAS has primary responsibility for international trade, foreign market development, and foreign affairs with respect to agricultural products.

The following is a brief description of FAS and some of its programs that may be of particular interest to cooperatives. Addresses and telephone numbers for various services are included.*

Trade Assistance

The Trade Assistance and Planning Office (TAPO) provides a single point of contact for cooperatives that are new, established, or potential exporters. The TAPO provides foreign market information and/or assistance on procedures, initiatives, corrective measures, and marketing approaches necessary to successfully sell in foreign markets. Information is available on overall market opportunities for U.S. farm exports and on U.S. Government programs and services aimed to maintain and expand foreign markets for American agricultural products.

Co-op exporters who believe they have been injured by unfair trade practices with respect to trade in agricultural commodities and products can obtain assistance from the TAPO. The Office compiles and makes readily available information concerning trade practices carried out by other countries, and remedies under U.S. law that might be available to persons injured by unfair trade practices.

In addition, the Office staff may refer a cooperative to sources of information that can

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[3] Newman, Mark D. and Riley, Harold M., Coordinating Exports by Farmer Cooperatives, U.S. Department of Agriculture, Agricultural Cooperative Service, Research Report 15, September 3982.

*If a listed USDA telephone number is incorrect, the general number for any USDA agency can be obtained by calling the USDA Locator Service at (202) 447-USDA. The correct number for any section of that agency can then be obtained by calling its general number.

help it solve its particular problems. They may be contacted at:

Trade Assistance and Planning Office
Foreign Agricultural Service
U.S. Department of Agriculture
3101 Park Center Drive, Suite 1103
Alexandria, VA 22302
Telephone: (703) 756-6001
FAX: (703) 756-6124

Marketing Information and Statistics

Historical data on the volume and value of international agricultural trade flows can help cooperatives to recognize important export trends. The Trade and Economic Information Division of FAS collects such data, along with information on prices, market share, and many other economic indicators. Cooperatives seeking such information for their marketing plan or other purposes may contact:

Trade and Economic
Information Division
Foreign Agricultural Service
U.S. Department of Agriculture
Room 6506-S
Washington, DC 20250-1000
Telephone: (202) 382-1294

Another useful source of marketing information is reports filed by FAS attaches who are constantly monitoring foreign agricultural markets. These reports are useful for cooperatives seeking information about competing firms in specified foreign markets. Cooperatives may obtain any of these reports by contacting the:

Reports Officer
Foreign Agricultural Service
U.S. Department of Agriculture
Room 6078-S
Washington, DC 20250-1000
Telephone: (202) 382-9509

Trade Shows

FAS coordinates the US. national pavilions at major international trade shows: it can assist co-op exhibitors with obtaining a booth, advance publicity, product shipment, and customs clearance.

Trade fair exhibits are a well-established means of introducing and promoting food products in foreign markets. Personal contacts are made with potential buyers. Sales may be consummated on the spot or a basis for future sales may be developed. Each exhibitor pays a fee for both space, use of pavilion facilities, and other services. There must be full-time representation at most kinds of exhibits.

The principal kinds of trade exhibits are (1) international food shows, (2) agent food exhibits, (3) hotel-restaurant-institutional exhibits or demonstrations, (4) catalog shows, (5) product displays managed by agricultural attaches, and (6) livestock shows.

Cooperatives seeking information on international trade shows and how to participate in them should contact the:

Trade Show Office
Foreign Agricultural Service
U.S. Department of Agriculture
Room 4647-S
Washington, DC 20250-1000
Telephone: (202) 245-5182

Export Product Review

Cooperatives that want to ensure that their product meets the labeling and ingredient requirements of a particular foreign country may wish to have their products evaluated through the Export Product Review Program of FAS. The U.S. agricultural attache will use the product label and ingredient list to check with foreign government officials to make certain that the product can be cleared for import. As part of the review, U.S. agricultural attaches may comment on the potential marketability of the product. There is a charge of $75 per label/country for this service. For more information, contact the:

Export Product Review Program
Foreign Agricultural Service
U.S. Department of Agriculture
Room 4647-S
Washington, DC 20250-1000
Telephone: (202) 475-3408

FAS Attaches

Agricultural counselors, attaches, trade officers, and other FAS officers are stationed at about 80 U.S. embassies and consulates around the world. These counselors and attaches assemble information on (a) the production and utilization of agricultural commodities and (b) governmental policies and programs related to agriculture in the country (or countries) to which they are assigned. They also supervise U.S. market development activities in the country and assemble information about marketing opportunities and competition for U.S. agricultural commodities.

Counselors and attaches often help U.S. exporters make contact with foreign businesses and government officials. This service is especially helpful to a cooperative when it is attempting to establish or expand an export sales program.

Trade Offices

In addition to the presence of FAS officers at U.S. embassies and consulates worldwide, FAS maintains *15* U.S. agricultural trade offices in major foreign markets. These offices could serve as a "home base" for co-op executives and staff that are visiting foreign markets. Desks, telephones, and secretarial support are available. For more information on U.S. agricultural trade offices contact the:

Foreign Agricultural Affairs
Assistant Administrator
Foreign Agricultural Service
U.S. Department of Agriculture
Room 4951-S
Washington, DC 20250-1000
Telephone: (202) 447-6138

Ag Export Connections (AEC)

AEC provides foreign trade opportunities and contacts to exporters of U.S. agricultural products by (a) collecting and publicizing information on foreign buyers and (b) advertising U.S. export availability. AEC offers these export marketing services: Trade Leads, Buyer Alert, and Foreign Buyer Lists.

Trade Leads

FAS agricultural counselors, attaches, and trade officers worldwide locate trade leads and report them to AEC. Cooperatives may receive these leads in three ways. One alternative is to contact the following commercial networks:

Agridata Resources, Inc
330 East Kilbourn
Milwaukee, WI 53203
Tel: (800) 558-9044

AT1 Net
CSU Fresno, Cati Office
Mail Stop 115
Fresno, CA 93740-0115
Tel: (209) 294-4872
(209) 294-2361

Another alternative is to subscribe to *Export Briefs,* a weekly bulletin which lists all export leads for that week. Upcoming trade shows and foreign trade developments are also highlighted. To subscribe ($75 per year) contact:

High Value Products Services Division
Foreign Agricultural Service
U.S. Department of Agriculture
Room 4647-S
Washington, DC 20250-1000
Telephone: (202) 475-3416

Finally, cooperatives may subscribe to the Journal of Commerce, a newspaper which publishes selected trade leads.

The trade leads provide sufficient information to enable a U.S. cooperative to select foreign firms for further consideration as buyers or agents. U.S. firms may also use commodity listings of foreign buyers for direct mail advertising.

Buyer Alert

Through this free service, U.S. agricultural exporters may advertise their products in markets around the world on a weekly basis. Using telecommunications, the AEC staff in Washington, DC, forwards product announcements to potential foreign buyers through FAS' overseas offices. For more information you may contact the High Value Products Services Division of FAS at the same address as above, or call (202) ***475-3421.***

Foreign Buyer Lists

AEC maintains a database of about 13,000 foreign buyers from over **70** countries. Lists may be formatted to provide foreign buyers by product for all countries or by country for all products. Cooperatives can use these lists to match their products with prospective buyers. Lists provide company name, contact, address, telephone, and FAX, telex, or cable where applicable. Lists are $15.00 each. For more information contact the High Value Products Services Division at the same address as above, or call (202) ***447-7103.***

USDA Technical Office

The Technical Office informs US. agricultural exporters about proposed changes in the health, quality, and packaging standards of foreign governments. As with trade leads, information on such matters is published in the FAS weekly bulletin Export Briefs and is released through the two commercial computer networks cited above. Information for subscribing to either source is given under "Trade Leads."

Cooperatives having questions about the agricultural standards of either the United States or foreign countries should contact the Technical Office, which keeps extensive and constantly updated files on proposed and existing U.S. and foreign regulations. The Office is a cooperative effort between FAS and the Agricultural Research Service. Inquiries may be sent to:

USDA Technical Office
Building ***1072***
BARC-East
Beltsville, MD 20705
Telephone: (301) 344-2651

Publications

FAS produces many publications and periodicals that will prove useful to cooperative exporters. **Two** publications that are especially important are the Food and Agricultural Export Directory and the Dictionary of International Agricultural Trade.* **Two** FAS periodicals that cooperative exporters should consider receiving are**:**

***AgExporter* -** A monthly magazine providing information on foreign markets and opportunities for U.S. agricultural exporters.

Foreign ***Agricultural Circulars* -** Reports providing U.S. agricultural exporters with information on the needs of foreign buyers, changing consumer preferences, trade policy issues, and the supply and demand situation in foreign countries. Circulars are available for most major crops. They are published periodically and are available by subscription.

A list of FAS publications, and information on how to order them, is available from the FAS Information Division. The address is:

Information Division
Foreign Agricultural Service
U.S. Department of Agriculture
Room 5920-S
Washington, DC 20250-1000
Telephone: (202) **447-7937**

Agricultuml Coopera tive Service

The Agricultural Cooperative Service (ACS) of the USDA concentrates on the problems and opportunities of U.S. agricultural cooperatives. ACS staff assist cooperatives by providing (1) research reports and other publications that address broad topics and (2) technical assistance studies that are aimed at solving specific problems of one or more cooperatives. The ACS research reports and other publications are available to the public: technical assistance reports are only distributed to the cooperatives for which they were done.

To get a catalog of ACS publications and an order form, write to:

USDA/ACS/Publications
P.O. Box 96576
Washington, DC 20090-6576

*These and other publications of particular importance for co-op exporters are listed in the selected bibliography at the end of this report, The International Trade Program (ITP), located in the Cooperative Marketing Division of ACS, is responsible for all agency activities that contain international trade as a principal component. ITP agricultural economists conduct research on topics that are related to cooperatives engaged in international trade. Recent ITP publications are listed in the appendix.

Any cooperative(s) seeking technical assistance from ACS must send a written request to the administrator stating the nature of the problem(s). Requests will be considered on a case-by-case basis. Typically, technical assistance studies have addressed matters of business organization, operating efficiency, and the economic feasibility of obtaining new facilities or adding new products or services. ACS does not currently charge for technical assistance studies.

Requests for technical assistance should be mailed to the:

Administrator
Agricultural Cooperative Service
U.S. Department of Agriculture
P.O. Box 96576
Washington, DC 20090-6576

ACS also conducts research concerned with improving the organizational structure and operations of cooperatives in general. These studies can be of value to all cooperatives, including those that export. In addition to research and technical assistance, ACS publishes the monthly magazine *Farmer Cooperatives.*

Agricultural Marketing Service (AMS)

Some foreign governments may require USDA certification that shipments of agricultural products bound for their country meet specified quality levels. Similarly, a foreign buyer may request USDA certification that a shipment being exported to them meets contract specifications. A cooperative facing either situation can get these inspection services, on a user-fee basis, from the Food Quality Acceptance Service (FQAS) of AMS. FQAS certification may be made a part of the purchase contract.

FQAS certification is available for export shipments of dairy products, poultry and eggs, fruit and vegetables, and meats. Cooperatives can contact the following offices for information on FQAS inspection services:

Dairy Grading Branch
Dairy Division
USDA/AMS
Room 2750-S
P.O. Box 96456
Washington, DC 20090-6456
Telephone: (202) 382-9382

Meat Grading and
Certification Branch
Livestock and Seed
Division
USDAIAMS
Room 2638-S
P.O. Box 96456
Washington, DC 20090-6456
Telephone: (202) 382-1113

Fresh Products Branch
Fruit and Vegetable Division
USDA/AMS
Room 2750-S
P.O. Box 96456
Washington, DC 20090-6456
Telephone: (202) 447-5870

Grading Branch
Poultry Division
USDAIAMS
Room 3938-S
P.O. Box 96456
Washington, DC 20090-6456
Telephone: (202) 447-3271

Processed Products Branch
Fruit and Vegetable Division
USDA/AMS
Room 0711-S
P.O. Box 96456
Washington, DC 20090-6456
Telephone: (202) 447-4693

Agricultural Research Service (ARS)

ARS can provide co-op exporters with research and information on product selection, packaging, storage, refrigeration, and transportation of export shipments. To get more information about ARS and their publications and reports, contact the:

Information Staff
Agricultural Research Service
U.S. Department of Agriculture
Room 307, Building 005, BARC-West
Beltsville, MD 20705
Telephone: (301) 344-2264

Animal and Plant Health Inspection Service (APHIS)

APHIS can help co-op exporters comply with the import requirements of foreign countries. Through pre-export inspection, APHIS can certify that the export shipment is free of injurious pests and/or diseases. For information on APHIS health and sanitary inspection and certification, contact one of the following offices:

USDA/APHIS/PPQ
Export Certification Unit
Staff
Room 669
Federal Center Building
6605 Belcrest Road
Hyattsville, MD 20780
Telephone: (301) 436-8537

USDA/APHIS/VS
Import-Export Operations
Room 764
Federal Center Building
6605 Belcrest Road
Hyattsville, MD 20780
Telephone: (301) 436-8590

Economic Research Service (ERS)

Cooperatives seeking economic information on foreign agriculture or world commodity markets can read ERS publications and technical reports. The Agricultural Trade and Analysis Division of ERS analyzes world agricultural commodity markets. It also forecasts utilization, stocks, trade, and prices of internationally traded agricultural commodities for the world, regions, and individual countries. For more information about ERS publications and technical reports, write to the:

Information Staff
Economic Research Service
U.S. Department of Agriculture
1301 New York Avenue, NW., Room 208
Washington, DC 20005-4788
Telephone: (202) 786-1512

Federal Grain Inspection Service (FGIS)

Almost all grain being exported from the United States must be officially inspected and weighed. FGIS or delegated state agencies perform these services for a fee. Their International Monitoring Staff responds to complaints from foreign buyers about either quality or weight of U.S. grain. In addition, they can provide U.S. exporters with technical information about U.S. grain quality standards and inspection and weighing procedures.

FGIS provides, on a fee basis, other tests for export shipments of grain and related commodities, such as measuring aflatoxin levels in corn or protein content in wheat, or inspection of rice, pulses, and processed grain products. For further information, contact the:

Federal Grain Inspection Service
U.S. Department of Agriculture
Room 1095-S
P.O. Box 96454
Washington, DC 20090-6454
Telephone: (202) 382-0216

Food Safety and Inspection Service (FSIS)

All meat and poultry being exported from the United States must be inspected by FSIS. All meat must be certified and most countries require that poultry products also be certified. FSIS reinspects meat and poultry at the time of export certification to ensure that the shipment is properly labeled and inspected and meets all requirements of the importing country. There is no fee for standard FSIS inspections of meat. FSIS will charge a fee for all poultry certification and for meat if the importing country requires a special certification.

FSIS also provides information to exporters about foreign import requirements for meat and poultry. For further information, contact the:

Export Coordination Division
Food Safety and Inspection Service
U.S. Department of Agriculture
Room 0019-S
Washington, DC 20250-1000
Telephone: (202) 447-9051

Office of Transportation (OT)

Cooperative exporters with international transportation problems or questions should contact OT's International Division. The Division provides technical assistance to exporters and puts out research publications on international transportation matters. Co-ops can contact OT at:

Director, International Division
P.O. Box 96575
Office of Transportation
U.S. Department of Agriculture
Washington, DC 20090-6575
Telephone: (202) 245-5304

U.S. Department of Commerce

The International Trade Administration within the U.S. Department of Commerce (DOC) provides many of the same services for nonagricultural exporters as FAS does for agricultural exporters. These include identification of foreign market opportunities, market research, sponsorship of foreign trade missions, participation in foreign trade shows, export counseling, and reports on foreign buyers. DOC also has responsibility for assisting exporters of seafood and agricultural equipment.

DOC has a number of publications on general exporting subjects that could be helpful for co-op exporters. For more details on export publications call (202) 377-3808.

State Sources of Assistance

All 50 States have trade professionals who are responsible for assisting agricultural exporters, and most are within the marketing divisions of their State departments of agriculture. State contacts for agricultural export assistance are listed in FAS' ***Food and Agricultural Export Directory***

Other Sources of Assistance

Many other government and private sources provide export assistance, e.g., the International Banking Division of CoBank, other commercial banks with international departments, international credit rating companies, commodity trade associations, port authorities, and air and ocean shipping lines.

EXPORT MARKETING STRATEGY

Preparing an Export Plan

Once a cooperative makes the decision to export, it should develop a written plan. The purpose of an export plan is to outline relevant facts, constraints, and goals and to set forth the cooperative's export strategy. It should include specific objectives with time schedules for implementation and standards for evaluating the performance of the export program.

One key to developing a successful plan is the participation of those co-op management and staff members who will be involved in export operations. All components of the export plan should be agreed upon by those who will ultimately be responsible for their execution. A written plan is important because it clarifies the positions and states the commitment of co-op board members and management with regard to the export program.

The first time an export plan is made, the efforts should be kept simple. The initial planning efforts can produce much information and insight that can later be incorporated into more sophisticated planning. An export plan should be a working document that can be used as a management tool. The objectives of the plan should be used to evaluate the performance of the export program. As more information and experience are gained, the cooperative can modify the plan and make it more specific.

Cooperatives that intend to export directly will need a more complex and detailed export plan than those planning to make only indirect export sales. A basic outline of a general export plan is presented in figure **2** below.

Equipment and Procedures for Exporting

The following office procedures and equipment are especially important for export marketing:

Facsimile (FAX) Machine

The FAX machine is rapidly displacing telex equipment as the preferred means of transmitting material to foreign countries.* It can send written messages and documents faster than a telex machine and can transmit things that a telex cannot, such as charts, graphic material, or anything else on paper. A FAX duplicates material just as a photocopier does and then transmits the image over long-distance phone lines to the other party's FAX.

***Though telex equipment is still being used by some smaller foreign buyers, it is questionable whether a new-to-exporting cooperative should invest in it.**

Calculations

It is important to be able to calculate the cubic measurements of any container (or item) in order to figure its volume. This is done by multiplying three numbers: the length times the width times the height or depth of the container (or item) = its cubic measurement.

Whatever linear unit (e.g., inches, centimeters) is used to measure length, width, and height will be the cubic unit of measurement.

Figure 2—Outline for a Cooperative Export Plan[4]

Table of Contents

Executive Summary (one or two pages maximum)

Introduction: Why the Cooperative Should Export

An Export Policy Commitment Statement

Situation/Background Analysis

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Personnel and Export Organization
Resources of the Cooperative
Industry Structure, Competition, and Demand

The Marketing Component

Identification, Evaluation, and Selection of Targeted Markets
Product Selection and Pricing
Distribution Methods
Terms and Conditions on Which Sales Will Be Made
Internal Organization and Procedures
Sales Goals: Profit (Loss) Forecasts
Tactics: Action Steps

Countries Where Cooperative Has Special Advantages
Primary Targeted Countries
Secondary Targeted Countries
Indirect Marketing Efforts

Export Budget

Pro Forma Financial Statements

Implementation Schedule

Follow up
Periodic Operational/Management Review (Evaluating Results When Compared to Goals Set in Plan)

Appendices-Background Data on Targeted Countries and Markets

Market Statistics: Historical and Projected
Background Facts
Competitive Environment

[4] This figure was adapted from A Basic Guide to Exporting, U.S. Department of Commerce, September 1986, p. 4

For example, if length, width, and height are measured in centimeters, then the volume will be measured in cubic centimeters. Cubic measurements are necessary for figuring out packing and loading details and shipping rates.

Shipping weights

Three weights are used in export shipping: (1) net weight, which is the weight of the product without its packaging and container: (2) tare weight, which is the weight of the packaging and container without the product: and (3) gross weight, which is the total weight of the product, packaging, and container.

Measures

Export staff should be able to convert imperial units of measure into metric units and vice versa. Almost all foreign countries use the metric system.

Couriers

For urgent letters or packages that must be sent to a foreign destination, the export staff should be familiar with available courier services.

Postage

Cooperatives can obtain information on rates for international mail service at a US. post office.

Sales Outlets and Distribution Channels

For some foreign markets there are numerous buyers or agents that could potentially import a shipment from a cooperative. In others, there may be only one importer—e.g., a state-controlled trading company-with which a cooperative could deal. Each entity connected with a foreign market to which a cooperative could potentially sell an export shipment can be considered a "sales outlet" for that cooperative.

Each sales outlet is part of a "distribution channel" in its foreign market. A distribution channel is the series of buyers, or agents and buyers, that control a commodity in sequence as it passes from the cooperative to the end user. The agents and buyers of a chain may perform many marketing functions before the commodity reaches the ultimate consumer, including transportation, storage, packaging, and merchandising.

Export Definitions

To officials of the U.S. Department of Commerce, the U.S. Customs Service, and most other Federal agencies involved in the export process, the meanings of "export shipment" and "exporter" are clear. An export shipment is a shipment that leaves a U.S. port en route to a foreign destination, including Canada or Mexico. The exporter is the party who takes legal responsibility for the export shipment by signing the shipper's export declaration and other required documentation.

In practice, defining "export shipment" and "exporter" is less clear-cut. Many cooperatives prepare and package products for foreign customers and have recognized brand names in foreign markets. But they use an intermediary to sell their products overseas. These cooperatives usually consider such sales as exports, regardless of which party fills out the required documents.

In addition, not all shipments of U.S. commodities that ultimately arrive at foreign destinations are considered exports. The following three types of sales would generally not be considered export sales: (1) shipments to U.S. territorial possessions, such as Puerto Rico, Guam, and the Virgin Islands: (2) shipments to the U.S. Armed Forces or U.S. diplomatic missions abroad for their use: and (3) shipments to be used as supplies aboard ocean and air carriers engaged in international commerce.

Direct vs. Indirect Export Sales

Traditionally, a distinction has been made between "direct" export sales-those made to foreign buyers or agents-and "indirect" export sales-those made to intermediaries who then directly export the product. The degree to which a cooperative makes an export sale through its own personnel and facilities determines whether the sale is classified as direct or indirect.

Opportunities for direct exporting vary with commodity and industry. Moreover, opportunities vary with individual transactions. Cooperatives capable of making direct export sales will make indirect ones when it is more profitable to do so.

Sales made to, or through, the following types of firms are classified as either indirect or direct export sales. These definitions may vary between persons and according to the circumstances in which they are used.

Indirect Export Sales

Export Management Company (EMC)—An EMC is an export facilitator that may perform all of the management functions and administrative tasks involved in conducting an export marketing program. Thus it can, in effect, act as a co-op's export department. It may work for a commission, retainer, or retainer plus commission. It may have other clients with noncompetitive commodities. Its offices are located in the U.S. An EMC generally does not buy or sell commodities but, in some instances, it may finance export sales.

Export Trading Company (ETC)—In contrast to an EMC, an ETC is an export intermediary that typically takes title to the commodities that it exports. Cooperatives and investor-owned competitors can form their own ETC. The Export Trading Company Act, passed in 1982, grants limited antitrust protection for groups of producers that engage in specified trade activities. The distinctions between an EMC and ETC are diminishing as each increasingly provide services that are typical of the other.

The Export Trading Company Act of 1982 is explained in greater detail in "Regulatory Concerns."

Export Merchant-The export merchant purchases commodities directly from U.S. food handling firms. The commodities are labeled, packed, and marked as the merchant specifies. The export merchant then sells them to foreign buyers, assumes the necessary risks, and seeks to make a profit. The merchant's offices are located in the United States.

Export Commission Agent-This type of domestic firm represents foreign companies. Acting as an agent for a foreign buyer, it will locate a U.S. supplier, purchase commodities needed, and receive a commission from the foreign firm.

Foreign Government Buying Agent-Some foreign governments have agents located in the United States that exclusively serve them and buy various commodities as requested by them.

International Trading Company-This firm specializes in purchasing commodities in one country, selling them in one or more countries, and handling all international shipping arrangements. A few very large international trading companies handle most exports of US. grain: they also have foreign sources of supply. All sales to such firms are considered indirect.

Several large Japanese trading companies maintain offices in the United States and other countries. In addition to agricultural products, they market industrial commodities and-unlike the more generalized trading companies-are primarily concerned with exporting Japanese commodities and importing U.S. and other foreign-source commodities for use in Japan,

In a sale where a U.S. cooperative sells a commodity to a Japanese trading company and (1) the cooperative is responsible for delivery of the commodity to a U.S. or Japanese port and (2) the commodity is destined for use in Japan, then the Japanese company is acting as a foreign importer rather than as an intermediary (as defined in this report). Such a sale may be classified as a direct export sale. In other circumstances, a sale to a Japanese trading company may be considered an indirect export sale.

Direct Export Sales

Export Broker-An export broker is a US. firm whose main function is to bring importer and exporter together. A broker will typically have a very small staff, perhaps only one or two persons. Offices are small and are located in the United States, usually at a port.

The broker is not a party to export transactions, although its services may result in a sale that may otherwise not have been made. It may also provide some limited advisory assistance to the exporter. The broker receives a commission from the exporter for each sale it arranges and works with all buyers and exporters with which it can establish contact. The broker does not buy or sell commodities or finance export sales. The cooperative exporter has essentially the same sales responsibilities that it would have in the absence of the broker.

If a co-op makes a sale through a broker to a firm that subsequently exports the products directly, such a sale would be considered indirect.

Foreign Sales Agent-The term “foreign sales agent” is used interchangeably with “foreign sales representative.” It signifies a special relationship between the U.S. exporter and a foreign firm. The agent works under a contract that specifies the rate of commission (when applicable), defines the sales territory, and lays out other working arrangements. The agent does not usually represent the cooperative on an exclusive basis, but its other clients should have noncompetitive commodities.

There are two types of foreign sales agents: an import agent and a foreign distributor. The import broker is a foreign firm that brings together a U.S. supplier and a foreign buyer. A foreign distributor purchases a commodity for its “own account” and then resells it to other buyers further along in distribution channels. Both types of agents are located in the major foreign markets that they cover.

Foreign Retailer or Retailer Association-A foreign retail food chain, or a foreign association formed to purchase supplies for distribution to affiliated chain stores or independent food stores, may buy commodities direct from a U.S. food cooperative.

End User-An end user is a foreign firm or individual who is the last purchaser of a co-op’s product in the form in which it was exported from the United States. Thus a foreign consumer may be the end user of fresh oranges, a bakery may be the end user of canned cherries, or a textile mill may be the end user of a bale of cotton.

Foreign Government Agency-A foreign government purchasing agency may buy commodities direct from a cooperative with delivery to be made at a U.S. loading port or a designated foreign discharge port. In some foreign countries, importing is handled through a government monopoly, frequently called a “state-controlled trading company.”

Market Research

After management has appraised the resources and the competitive strengths and weaknesses of the cooperative and has determined that it may be feasible to initiate or expand an export program, market research is needed to facilitate the selection of targeted markets. This research will help management design a feasible export plan.

The U.S. Trade Data Classification System

Federal Government agencies use a series of trade data classification schedules to categorize U.S. export data. A cooperative export staff will benefit from learning the code numbers that are used for their export product(s). With these numbers, staff members are in a better position to fill out custom and census reports and other required export documentation and to locate trade and marketing statistics.

The United States recently joined the majority of its trading partners in adopting the Harmonized Commodity Description and Coding System for classifying trade data. More widely known as the Harmonized System (HS), it is organized into 22 sections: the first 4 cover most agricultural goods.

Under the HS, each agricultural product is assigned a six-digit code number. U.S. trade data classification schedules are currently being revised to be in accordance with the HS. Beyond the first six digits, however, each country is allowed to have its own coding system.

The following U.S. trade data classification schedules are especially significant for U.S. exporters:

Schedule B-These numbers are used for reporting export shipments on the shipper’s export declaration and other required documentation. All U.S. export shipments are originally recorded and classified by their schedule B numbers. The data for all other U.S. export classification systems are transformed from schedule B data.

Schedule B code numbers are the most important for the cooperative staff to identify. Code numbers for individual products can be obtained by contacting the:

Foreign Trade Division
Bureau of the Census
Washington, DC 20233

***Standard Industrial Classification (SIC)*—This** classification code is used by the Bureau of the Census and the U.S. Department of Commerce (DOC) for analyses of domestic commerce. The Bureau of the Census, however, transforms schedule B data into an approximation of the SIC-format in order to facilitate comparisons of domestic and international markets. Many government agencies and private firms use the SIC-format to organize their statistics and reports on foreign markets.

SIC code numbers for individual products are listed in the Bureau of the Census publication ***Standard Industrial Classification Manual,*** which can be found in most research libraries.

***Standard International Trade Classification (SITC)*—This** system was devised by the United Nations to organize and report foreign trade data for all countries. SITC data are commonly used for comparing the international trade of different countries.

Targeting Potential Foreign Markets

Cooperatives may find the following procedures useful for selecting targeted markets?[5]

Screen Potential Markets

Step **1 -** Obtain agricultural trade statistics that show the global marketing trends for the agricultural commodity your cooperative is planning to export. As noted in the previous section "Sources of Assistance," FAS is an excellent source for such data.

Step 2 - Identify 5 to 10 large and fast-growing markets for this commodity. Trade trends for these markets should be examined for the past 3-5 years.

Step 3 - Identify some smaller but fast-emerging markets that may provide opportunities. If the market is just beginning to open up, there may be fewer competitors than in established markets.

Step **4 -** Target three to five of the most statistically promising markets for further assessment. Consult with FAS staff, other suppliers with experience in those countries, freight forwarders, and others to help refine targeted markets.

Assess Targeted Markets

Step 1 - Examine trends for the commodity in more detail, as well as trends regarding related commodities that could influence demand. Calculate overall consumption of the product and the amount accounted for by imports for each targeted market.

Step 2 - Determine the sources of competition, including the extent of domestic production and the major foreign suppliers for each targeted market.

Step 3 - Analyze factors affecting marketing and use of the commodity in each market, including end-user sectors, distribution channels, cultural idiosyncracies, and business practices.

Step **4 -** For each targeted market, identify any foreign trade barriers (tariff or nontariff) for the commodity. Check for U.S. barriers, such as export controls, that may affect exports to any of the targeted markets.

Step 5 - Identify any U.S. or foreign government incentives to promote exporting of the commodity.

After analyzing the information, the cooperative can select one or two of the most promising markets as primary export targeted markets, and a few others as secondary targets. Again, FAS staff and other sources of assistance can help any cooperative with export market selection,

Cooperatives assessing alternative export markets should give special attention to *(1)* the supply-demand situation and (2) the alternative distribution channels of each country:

1. Supply-Demand Situation - The potential for exporting a U.S. agricultural commodity to a foreign country is affected by changes in the supply and effective demand for the commodity

[5]These suggestions are adapted from ***A Basic Guide to Exporting,*** U.S. Department of Commerce, September 1986.

in both that foreign country and in the rest of the world.

Data should be assembled to show trends and developments on a seasonal and annual basis for shipments to the selected foreign country. Included should be data showing trends in the volumes, values, and prices of the foreign country's imports of the commodity from the United States and other sources, and trends in the domestic production and consumption of the foreign country.

This should be supplemented, at a latter stage, by information on:

- The way in which the commodity is consumed in the foreign country:
- Consumption habits of consumer groups (classified according to race, religion, age, income, and rural or urban location):
- Variations in demand according to factors such as product quality and packaging:
- The trend in consumer purchasing power, recent or anticipated changes in import restrictions and other trade barriers:
- Outlook for preferential arrangements between the foreign country and other countries:
- Nature and intensity of competition provided by domestic supplier firms:
- The major kinds of importers, i.e., brokers, distributors, end users, etc.;
- The export capabilities and probable competitive impact in this market of suppliers located in other countries.

Cooperatives should also consider the physical facilities of the selected foreign country. Are the port facilities sufficient for discharging the commodity? Are storage facilities adequate at the port and inland? What is the situation with respect to transportation facilities? Is the supply of labor required for handling the commodity large enough, competent, and stable?

Finally, political instability or anti-U.S. sentiment in the foreign country may limit the market potential of the country.

2. Alternative Distribution Channels - The relative merits of each distribution channel should be considered before an exporting cooperative commits itself to any one of them. The following questions should be considered:

- Through what channels flow commodities of the kinds handled by the cooperative?
- How important is each channel in terms of volume and margin?
- How well is it supplied by domestic and foreign firms?
- How difficult would it be for the cooperative to gain entry?
- Have some marketing opportunities been overlooked by other U.S. suppliers?
- Have other U.S. suppliers tried to grasp certain apparent opportunities but failed? If so, why?

An exporting cooperative must select those foreign importers and foreign sales agents that have the experience and contacts needed to develop sales through the distribution channel(s) with the greatest potential for the cooperative's products.

Relations With Foreign Sales Agents

Some foreign sales agents operate import businesses and buy products from the export suppliers they represent, while others offer agent representation as brokers who work on commission. With either type, an exclusive agreement can be established. The agent as broker permits more control over pricing but requires transactions with several different buyers.

A cooperative will usually have no more than one foreign sales agent in a designated foreign market. Similarly, the agent will typically not handle the same commodities for other U.S. suppliers, unless the cooperative gives prior consent in each instance.

The cooperative is the shipper and bears the responsibility for all major decisions in developing and maintaining the export program, but an agent can provide some or all of the following services:

- Obtain information from various sources to aid in selection of dependable buyers:
- Arrange for the shipment of sample quantities of the co-op's products and deliver or send them to potential buyers;
- Estimate all costs, beyond the U.S. loading port, to be incurred in an export sale of the co-op's products:
- Sell the co-op's commodities, subject to final confirmation by the home office, to foreign buyers:

- Reserve space on vessels to provide for overseas delivery of the products:
- Meet with foreign buyers or their agents soon after an initial shipment of the co-op's product is received to discuss all aspects of the sale and delivery:
- Resolve misunderstandings (if any) between buyer and seller:
- Provide a detailed accounting of all expenses incurred on behalf of the cooperative:
- Assist the cooperative, if necessary, in collection of payments for shipments to foreign buyers:
- Regularly call on both established and potential buyers and assist them with promotional activities designed to increase sales of the co-op's products:
- Keep the cooperative informed about regulations and actions of foreign governments and other important information that may affect the cooperative's exports to that market:
- Handle promotion of the co-op's products.

In most instances, the export sales function should be centered in the cooperative's own export sales unit. The export sales manager must maintain close and effective working relations with the co-op's foreign sales agents.

Cooperatives may or may not wish to have an agreement with their foreign sales agent in written form. In practice, some co-op exporters insist upon written agreements with all of their foreign sales agents. Some refuse to enter into any such agreements, and some decide on a case-by-case basis, depending upon a number of variables such as the agent's preference, the contract laws of the agent's country, and the business traditions of that country with regard to contracts.

The responsibilities and obligations of each party, the division of decisionmaking authority, terms of compensation for the representative, and the geographic area to be served by the representative are all key points to cover in any agreement reached with an agent, whether it is written or verbal.

Attention should also be given to avoiding conflict with U.S. laws and those of the country where the agent is based.

Product Preparation

A cooperative may have to modify its export products to conform to foreign government regulations, geographic and climatic conditions, importer preferences, or standards of living in the importing market. Product modification may also facilitate export shipping,

A cooperative may not have to modify its product if consumers in the importing market have similar demographic characteristics or tastes, if the product is unique, if a brand name identity has been established in the foreign market, or if the product is a commodity with few or no distinguishing features.

Many foreign countries have agricultural standards which may force co-op exporters to modify their products. These regulations serve to:

- protect the safety and health of the country's citizens:
- force the importer to comply with the quality requirements of the country:
- protect agricultural producers from foreign competition.

As is mentioned, co-op exporters can find out about the agricultural standards of foreign countries by contacting the USDA Technical Office.

When deciding on the branding and labeling of export products, cooperatives must consider if:

- international brand names are important to promote and distinguish the product or whether local brands or private labels would do more to heighten local interest:
- the colors used on labels and packages are offensive or attractive to consumers in the targeted market:
- labels can be produced in official or customary languages, if required by law or practice;
- it is necessary to provide information on product content or country of origin:
- weights and measures are stated in local units:

A cooperative may find that building international recognition for a brand is expensive. Protection for brand names varies from one country to another, and in some countries there are barriers to the use of foreign brands or trademarks. In other countries, piracy of U.S.

exporters' brand names and counterfeiting of their products are widespread.

To protect its products and brand names, a cooperative must comply with local laws on patents, copyrights, and trademarks. A cooperative may benefit from consulting with local attorneys or consultants from the targeted market.

Promotion

Promotion can be an important part of export market development for some cooperatives. Promotion activities include foreign trade shows, direct mailings, price and nonprice promotions, and media advertising. Activities will vary significantly in expense, and some will be more appropriate than others for reaching a certain audience.

Trade shows and direct mailings are useful for reaching potential foreign buyers or foreign sales agents. Media advertising and price and nonprice promotion are more appropriate for reaching foreign consumers. In general, media advertising is more expensive, and to get the maximum benefit from it, the cooperative must have a long-term commitment to that foreign market.

A cooperative should work closely with its foreign sales agent(s) or other foreign contacts in developing any promotion campaigns or materials aimed at foreign markets. As noted earlier, the USDA's Foreign Agricultural Service (FAS) offers extensive promotion assistance to agricultural exporters.

Participation in international trade shows and foreign sales missions are two ways for a cooperative to promote its products to buyers and agents in a foreign market. FAS is heavily involved in both of these promotion activities.

A major means of advertising in foreign markets is by direct-mail brochures or correspondence. A cooperative can target a specific audience in a direct-mail campaign, depending upon the quality and size of its mailing list. All brochures or letters should have essential material translated into the foreign language of the audience. As noted, FAS can provide cooperatives with foreign-buyer mailing lists by product or country.

Price promotions include coupons and sales. Nonprice promotions include (1) point-of-sale activities, such as instore demonstrations, free samples, displays and posters, and pamphlets with nutritional information or recipes and (2) promotional events, such as contests, pageants, and sporting events.

For most foreign markets, cooperatives can choose to advertise in any of a wide variety of trade and consumer publications. Publishers frequently offer marketing assistance to exporters, including specific recommendations on promoting their products in specific foreign markets.

A cooperative may also use television or radio to promote its products in foreign markets. In areas where programs may be seen and heard in public places, television and radio promotions offer one of the few means of bringing an advertising message to a large number of people. In many countries, particularly in Latin America, various forms of outdoor advertising (billboards, posters, electric signs, etc.) are widely used to reach the mass audience.

Because of the specialized knowledge required to advertise and promote successfully in foreign markets, cooperatives may wish to use the services of a U.S. advertising agency with offices or correspondents abroad. Some of these agencies handle nothing but foreign advertising. In addition, some marketing consultants specialize in the problems unique to selling in foreign markets. Cooperatives can get information on U.S. advertising agencies that handle foreign accounts by contacting the:

International Advertising Association, Inc.
4 75 Fifth Avenue
New York, NY 10017

Such information is also available from the annual international edition of ***Advertising Age.***

U.S. Government Export Incentives

Cooperative exporters can take advantage of a number of Government export incentives, including foreign sales corporations, "drawback" refunds of customs duties, and foreign trade zones.

Foreign Sales Corporations

A foreign sales corporation (FSC), which can be formed by one or more U.S. firms with export interests, can obtain a corporate tax exemption on 15 to 32 percent of the income generated from the export of products grown, processed, or made in the United States. (Up to 50 percent of the export product's inputs may be imported.) An FSC can function as a principal, buying and selling for its own account, or as a commission agent.

An FSC must incorporate and maintain its major office in either a qualified foreign country (one having an exchange of tax information program with the United States) or one of four U.S. possessions-the U.S. Virgin Islands, Guam, American Samoa, or the Commonwealth of Northern Mariana Islands. In addition, an FSC must keep its books of account at its foreign office, although duplicates of certain records must also be kept in the United States. The FSC can have no more than 25 shareholders: and it may issue common, but not preferred, stock. Further, at least one member of the board of directors must not be a U.S. resident. Finally, it must file an election to become an FSC with the Internal Revenue Service.

For an export transaction to qualify for tax benefits, certain related activities and costs must be handled by the FSC outside of U.S. customs territory, either directly or through its agents. At a minimum, it must either solicit, negotiate, or make the contract with the foreign buyer. In addition, it must pay for some of the following five sales activities: advertising and promotion, processing of customers orders and arranging for delivery, international transportation, billing and collection, and assumption of credit risk. The FSC may choose to assume either 50 percent of the total costs of all five activities or 85 percent of the total costs of any two of the five.

As an alternative to a regular FSC, exporters may form a "small" FSC, which is exempt from many of the requirements that apply to the former's transactions and operations. Such an FSC may have no more than $5 million in qualifying export sales.

Another option for exporters is to form an Interest Charge-Domestic International Sales Corporation (IC-DISC). With this type of DISC, 94 percent of up to $10 million in export sales can be deferred as taxable income. IC-DISC shareholders must pay yearly interest charges, at Treasury bill rates, on the deferred taxes. In effect, IC-DISC tax deferral benefits allow small exporters to "borrow" from the U.S. Treasury at relatively favorable interest rates.

For more information on FSC's, contact the Office of Trade Finance of the U.S. Department of Commerce at (202) 377-4471.

Drawback of Custom Duties

"Drawback" is a form of tax relief in which a customs duty is refunded, in part or in total, because of the particular use made of the commodity on which the duty was collected. Some agricultural marketing cooperatives import commodities for use as inputs in the manufacture of their products. They are eligible for drawback, less 1 percent for customs costs, on any duties paid for inputs used in the manufacture of products which are exported. For more information on drawbacks, contact the Drawback and Bonds Branch of the U.S. Customs Service at (202) 566-5856.

Foreign Trade Zones

Foreign trade zones (or free trade zones) are sites located throughout the United States that are considered outside of US. customs territory. Cooperatives can use these zones to accelerate the export status of their shipments for purposes of customs drawback. In addition, imported commodity inputs can be stored,sorted, graded, or otherwise processed before being brought into U.S. customs territory. Finally, cooperatives can manufacture export-bound products that use imported inputs in the zone, and thus avoid paying any duties in the first place.

MAKING THE SALE

Relations with Foreign Buyers

Requirements of Foreign Buyers

Information on the current commodity interests of selected foreign importers can be obtained through FAX, letter, cable, or telephone by a cooperative that has established personal contact with each importer. It is also possible, though more difficult if there has been no personal contact, to find out through correspondence exactly what a buyer's preferences or needs are with respect to product specifications, container and package specifications, import restrictions and requirements, shipping requirements, supply schedule, and terms of sale.

Cooperatives need to make direct and personal contacts with foreign buyers to gain a deeper insight into the nature of a market, and the economic, political, and social forces at work within it. One or more co-op staff members with export responsibilities should visit foreign markets to learn about them firsthand.

Many important questions can best be answered through personal interviews with foreign buyers. Some of these important questions are: What are the attitudes and opinions of individual foreign business persons regarding the United States, its agricultural commodities, and its agricultural cooperatives? How favorable or unfavorable is the foreign market environment for maintaining or increasing purchases of your co-op's products? What changes are likely?

Figure 3 is an illustration of a form that may be helpful for summarizing information obtained during an interview with a foreign buyer.

Figure 3—Individual Buyer Interview Record [6]

(A) Name and address of firm: ____________
____
____
____

(B) Phone: ____________
FAX: ____________

(C) Names and titles of key individuals:
____
____
____

(D) Kind of import business: ____________
Functions performed: ____________
Kinds and numbers of customers/sales outlets:
____

(E) Markets served: ____________

(F) Physical facilities: ____________

(G) Size of business (approx):
Number of employees: ____________
Total annual $ volume: ____________
Annual import $ volume: ____________

(H) US. foods now handled ____________
Kinds of foods and packs: ____________
Names of firms with which deal regularly: ____________
Kinds of sales arrangements: ____________

(I) US. foods for which new sources desired ____________
Kinds of foods and packs: ____________
Kinds of sales arrangements: ____________

(J) Other information: ____________
____
____
____

(K) Last personal interview with co-op ____________
Place: ____________
Date: ____________
Rep(s) of buyer: ____________
Rep(s) of co-op: ____________

[6] This figure is adapted from Hirsch, Donald E., Export Marketing Guide for Cooperatives, U.S. Department of Agriculture, FCS Marketing Research Report 1074, March 1977, p. 30.

Elements of a Sale

The foreign buyer is interested in four basic elements of a sale: product, price, performance, and profit.

A foreign buyer usually wants to study a sample of the co-op's product. The cooperative should provide a sample which is representative of the type of product that it can supply regularly and in quantity, rather than a selection of its very best quality products. Many foreign buyers, especially in Western Europe and Japan, stress uniformity in quality. They want the same quality-whether of size or grade-in each shipment they receive.

For food products sold under the co-op's brand name, a foreign buyer will often seek exclusive use of that brand name within its sales territory. This is to enable the buyer to profit from its sales and from its efforts to promote that brand. The cooperative may benefit from granting the buyer such exclusive use.

The foreign buyer seeks to buy at the lowest practicable price. If the buyer is dependable and interested in developing a continuing business, then the buyer can recognize the stake that the cooperative has, as well as its own benefit, in settling on a price that reflects the competitive market situation in relation to the quality and quantity of the product sold. A cooperative is generally well advised to stay away from the "fast buck" buyers who are interested in "one-shot" deals or who specialize in "distress sales."

Performance by the co-op supplier is important to the foreign buyer. The product shipped should conform to the product and delivery specifications of the sales agreement. The buyer also wants a dependable supply.

Adverse weather during the production season, or other factors, often cause year-to-year fluctuations in the volume of a commodity marketed by a cooperative. An exporting cooperative has three basic alternatives with respect to its export sales program during the years of short supply. It can:

- Tell a foreign buyer that it is not interested in sales to the buyer's market during the current marketing year.
- Quote a price to the foreign buyer that is sufficiently higher than that available in the U.S. domestic market, or in other foreign markets, to make a sale financially attractive to the cooperative.
- Guarantee in advance that the foreign buyer will receive a specified minimum proportion of the cooperative's supply. For example, the cooperative may guarantee that the proportion available to the buyer during the current marketing year would be the same proportion that it purchased during the previous year.

Under this arrangement, the buyer would have a smaller quantity available to it in absolute terms but would have an assured share of the co-op's supply. The buyer could still sell to its customers, though in reduced quantities. Price could also be guaranteed in advance. The maximum might be based on the current price of the co-op's product in that foreign market or in the U.S. market.

The first of these alternatives is not appropriate for a cooperative that is interested in developing or maintaining an export presence in that foreign market.

The third alternative **may be in the long-term interest of the cooperative, especially if the co-op is selling a product under its own brand name or that of the buyer. This kind of supply guarantee on the part of the cooperative during a year of short supply may well lead to a request that the buyer make a similar quantity-and-price purchase guarantee for years when the cooperative has unusually large quantities of product to market.**

Agreement on Terms

After selection of a market and a potential buyer, there are still many details to be worked out in developing a sale. The major items may be summarized as follows:

1. **The buyer's preferences with respect to product specifications, including variety, price levels, size and kind of shipping container, season of year during which deliveries are desired, quantities per shipment and per season, and delivery and payment terms of sale.**
2. **Import restrictions and requirements with respect to labels and markings on packing containers: import periods, licenses, quotas, and levies: and documents such as certificate of origin, grade inspection certificate, or certificate of composition or viability.**

3. Shipping requirements, particularly temperature and humidity. In addition, the availability, frequency, dependability, and comparative costs of various modes of ocean or air transportation.

4. Costs to be incurred by shipper in preparing an export shipment and also the costs from the time the shipment leaves the local shipping point until the time and place at which the buyer takes title.

Clear communication is a necessity in international trade. The buyer and exporter must agree on all the terms of a sale if it is to be consummated to the satisfaction of both parties. Specifying details explicitly and in writing minimizes opportunities for misunderstanding.

The task of getting agreement on all possible points of issue can be simplified by advance planning. Figure 4 is a checklist of information that will be needed by a buyer and a seller to complete a sales offer.

Many communications between seller and buyer can be handled by FAX, mail, cable, or telephone. A new-to-exporting cooperative will soon find that acquisition of, or access to, telecommunication facilities, especially a FAX machine, is essential to its business.

Speed, as well as accuracy, is needed in communications with a potential foreign buyer that has made a serious offer. If buyers feel that their inquiries are not receiving adequate attention, they may turn to competing U.S. and foreign suppliers. Moreover, many foreign buyers initially contact more than one supplier when they need to arrange a purchase. The need for prompt action by the cooperative is also necessary in this situation.

Delivery Terms of Sale

A key aspect of any export sale is the location at which the title and risk of a shipment is transferred from the exporter to the importer. To designate that point, it is customary to use one of several delivery terms of sale which is almost always expressed as an abbreviation. Each delivery term of sale defines the respective duties and liabilities of the exporter and the importer.

While there is no official agreement among countries, the 14 delivery terms of sale currently defined by the International Chamber of Commerce (ICC), known as the “incoterms,” are widely regarded as the standard around the world. The ICC periodically updates the definitions of the incoterms and has added new ones to keep up with developments in international trade, such as the rise of intermodal transportation.

Some shippers still quote delivery terms of sale from the Revised *American Foreign Trade Definitions—1941.* Although there is little difference in terms from either source, it is safer and more precise to use incoterms.

For any export sale, it is critical that both the exporter and the foreign buyer have a common understanding regarding the delivery terms of sale. For this reason, the co-op export staff should be familiar with the incoterms before preparing a quotation or a pro forma invoice.

A guide defining the 14 incoterms in detail is available from ICC. A smaller booklet describing the incoterms without diagrams and illustrations is also available. For current prices and ordering information, contact:

ICC Publishing Corporation, Inc.
801 Second Avenue Suite 1204
New York, N.Y. 10017

The four most frequently quoted trade terms for agricultural commodities and their common three-letter abbreviations are: “free alongside ship” (FAS), “free on board” (FOB), “cost and freight” (C&F) and “cost, insurance, and freight” (CIF). Working with the United Nations, the ICC has given each incoterm a standardized three-letter abbreviation known as its international code. FAS, FOB, and CIF remain the same, but C&F has been changed to CFR.

These terms are briefly described below, but any person who is responsible for developing export sales needs a more detailed knowledge of these and the other incoterms.

Free Alongside Ship

Under the FAS trade term, the exporter assumes all risks and pays all expenses through placing the shipment on a dock ready for loading at a port specified by the importer. At this point, the importer takes title and assumes liability (i.e., assumes the risks of loss or damage to the goods) for the shipment from that moment. The importer must also contract for the carrier and pay for the costs of clearing the shipment for export, loading it into the vessel, and all subsequent expenses.

Free on Board (FOB)

Under the FOB term, the exporter assumes all risks and pays all expenses through loading the shipment into the holds of the vessel at a

Figure 4—Information Needed for Sales Offer[7]

This checklist applies to raw and processed foods in general; not all items are pertinent to any given commodity.

KEY:

BP - Buyer to express preferences
BI - Buyer to provide information needed by seller
SP - Seller to express preferences
SI - Seller to provide information needed by buyer

COMMODITY

1. Kind (BP, SI)
2. Variety (BP, SI)
3. Fresh, frozen, canned, or dehydrated (BP, SI)
4. End use (BP, SI)

PRODUCT SPECIFICATIONS

5. Grade(s) (BP, SI)
6. Composition (BP, SI)
7. Minimum and/or maximum percent moisture (BP, SI)
8. Size (raw product) (BP, SI)
9. Size of particles (processed product) (BP, SI)
10. Shape (raw product) (BP, SI)
11. Appearance (BP, SI)
12. Flavor (BP, SI)
13. Brix (processed product) (BP, SI)
14. Brand name(s) (BP, SI)
15. Special process or handling (BP, SI)

CONTAINER AND PACKAGE SPECIFICATIONS

16. Packing container:
a. Kind-Carton of given number of layers, double corrugated or triple wall, or specified test weight; outer “master” or “telescope” carton (BP, SI)
b. Strapping-Plastic tape or metal band (SI)
c. Waterproof or other lining, packing material, cell pack or other trays, special wrappings (SI)
d. Gross and net weights (SI)
e. Length, width, height, and/or cubic measurement (SI)
f. Special markings required (BI)

17. Individual package:
a. Kind (BP, SI)
b. Size (SI)
c. Net weight (SI)
d. Number per packing container (BP, SI)
e. Special imprints or labels required (BI)

18. Minimum truckload, carlot, or van containerload—
a. Number of packing containers (SI)
b. Gross weight of packing containers (SI)

19.

22. Certificate of origin (BI)
23. Grade certificate (BI)

certificate

SHIPPING REQUIREMENTS

26. Mode of transportation (BP, SI)
27. Dry, ventilated, or reefer space (BP, SI)
28. Temperature and humidity (BP, SI)

SUPPLY SCHEDULE

29. Approximate beginning and ending dates supply desired or available (BP, SI)
30. Date first shipment desired (BP, SP)
31. Quantity desired or available for first shipment (BP, SP)
32. Quantity desired or available in next 12 months (BP, SP)
33. Number of shipments desired in next 12 months (BP, SP)

TERMS OF SALE

34. Loading port(s) (BP, SP)
35. Discharge port(s) (BP, SP)
36. Indicated price; FAS, FOB, CFR, CIF, or other delivery term of sale; named port (BP, SI)
37. Firm price for specified period, or price subject to final confirmation (SI)
38. Quantity firm for specified period, or quantity subject to prior sale (SI)
39. Payment term of sale (BP, SP)
40. Discounts by seller for cash, quantity, or other conditions (BP, SI)
41. Promotional allowances by seller-cash or product (BP, SI)
42. Rate of commission to be included for importer if acting as an agent rather than as actual buyer (BI)

DISTRIBUTION

43. Geographic area involved (BI)
44. Distribution channels (BI)

specified area(s) (BP, SI)

PROMOTIONAL ITEMS SUPPLIED BY SELLER

47. Samples of labels (BP, SI)
48. Printed materials on characteristics, promotion, merchandising, and/or use of product (BP, SI)

[7] This figure is adapted from Hirsch, Donald E., Export Marketing Guide for Cooperatives, U.S. Department of Agriculture, FCS Marketing Research Report 1074, March 1977, p. 33-4

port specified by the importer. The major difference from FAS conditions is that the exporter takes responsibility for, and bears the costs of, clearing the goods for export. The importer takes title and assumes liability for the shipment at the moment it "passes the ship's rail." The importer pays for freight and all subsequent costs, including loading costs if they are included in freight: otherwise the exporter pays for loading.

If either the cooperative or the buyer desires flexibility in selecting a loading port, a general area, such as U.S. Gulf, may be specified rather than a single port.

Since 1976, ICC has had the separate incoterm "FOB Airport" (FOA) for FOB shipments that are transported by air carriers. The difference between this and FOB is that title and liability are transferred when the goods are delivered to the air carrier at the airport of departure, rather than when they are loaded onto the aircraft.

Cost and Freight (CFR)

The "cost" is the value of the shipment when it is loaded aboard an ocean carrier at the U.S. port of embarkation, and "freight" is the cost of transportation to a named foreign port of destination or specified geographic range of foreign ports. Under CFR the exporter pays all costs (except insurance) through unloading the shipment over the vessel's rail at the foreign port of destination. The importer, however, assumes liability when the shipment is loaded at the U.S. port and pays for marine insurance to cover the shipment.

Cost, Insurance, and Freight (CIF)

Under CIF conditions, the exporter pays all costs, including insurance, through unloading the shipment over the vessel's rail at the foreign port of destination. The difference between CIF and CFR terms is that the exporter pays for marine insurance coverage. The importer, however, still assumes liability for the shipment when it is loaded at the U.S. port.

Other Incoterms

There are nine other less-frequently-used incoterms defined by the ICC. The title, international code abbreviation, and a summary of conditions for each of these incoterms are listed below. They are presented in order of increasing involvement and cost for the exporter.

Ex Works (EXW)—The seller is only responsible for making the shipment available at its premises. The buyer must make all of the export arrangements and bear all of the costs and risks. "Works" is a generic term which could mean warehouse, plant, or any other point where products are produced or stored, thus "ex warehouse" and "ex plant" are two of many possible variations of the term.

Free Carrier (FRC)—This term was adopted in 1980 to meet the needs of exporters that use intermodal transport, such as shipping by containers that are carried by rail car or truck, and then directly loaded into air or ocean carriers. The seller fulfills its obligation by delivering the shipment to the buyer's carrier at a terminal somewhere between the seller's premises and the carrier's port.

Free on Rail (FOR)/Free on Truck (FOT)—The seller's primary duties here are to deliver the shipment to the railway. Both "truck" and "rail" refer to transport by train (truck here means a railroad freight car). The buyer assumes all costs and risks for the shipment after it has been delivered to the railway dispatching station (or in the case of full freight-car loads, after the shipment has been loaded aboard cars arranged by the seller).

Freight or Carriage Paid To (OCP)—As with a CFR sale, the exporter is responsible for paying freight and cost to the foreign destination, while the buyer must obtain and pay for marine insurance. CFR only applies to ocean carriers, however, while OCP can apply to any mode of international transport. OCP sales also differ from CFR in that the exporter assumes all risks for the shipment until it is delivered to the first carrier, not the ship's rail. This is used with intermodal shipments where the first carrier of a container will be a truck, freight car, or barge.

Freight or Carriage and Insurance Paid To (CIP)— This term has the same conditions as OCP, except that the exporter is responsible for marine insurance coverage.

Ex Ship (EXS)—For EXS sales, the exporter is obligated to deliver the shipment on board an ocean carrier to the designated foreign port of destination. As with a CFR sale, it pays all costs up to the point where the shipment is unloaded. Unlike a CFR sale, however, the exporter also assumes all risks to that point. It is up to the exporter to obtain any marine insurance coverage that it wants for its shipment.

Ex Quay *(EXQ)*—This term has the same conditions as EXS, except that the exporter must pay the costs and assume the risks of unloading the shipment and clearing it, for import with the foreign government.

Delivered At Frontier (DAF)—Under this term, the exporter assumes all costs and risks for the shipment up to the point where it is delivered to the border of the foreign country specified by the importer and cleared for export. DAF is intended to be used for shipments that are transported by railway or road, though it may be used with any mode of transportation.

Delivered Duty Paid (DDP)—The opposite of EXW, the exporter assumes all costs and risks for the shipment until it is delivered to a point specified by the importer inside the foreign country. The exporter is responsible for unloading the goods, clearing them for import, and transporting them to the designated point.

Pricing

The basic objective of export pricing is the same as domestic pricing-to have the price high enough to provide a net margin for the cooperative but low enough to induce foreign importers to buy the commodity.

Alternative Methods

The following export pricing methods are some that can be used by a cooperative seeking to establish a continuing export marketing program (in contrast to periodic surplus disposal activities):

1. Take the EXW plant price for a domestic sale and add all costs involved in preparing the product for export and in moving it to the point where the title is transferred to the foreign buyer. This is the simplest method of pricing, which is commonly used by many cooperatives, especially the smaller ones or those new to exporting.

2. Take the price arrived at under alternative 1 and deduct the average cost of domestic selling and advertising. (The cost of foreign selling-and advertising, if any-would be included in the price developed under alternative 1.) This modification results in a more realistic as well as a slightly lower export price.

3. Calculate the marginal cost of producing the commodity for the export market: this is the average cost of each additional unit produced in excess of the quantity desired for the domestic market.

This alternative has much greater application for industrial products than for agricultural products because the industrial producer normally has much greater control over the annual supply of its commodity. It may, however, be considered by a cooperative that purchases supplies of an agricultural commodity on the spot market to supplement quantities received from producer-members. It may also have significance in long-range planning for any exporting cooperative.

Calculate the proportions of the total volume of the product that are to be sold domestically and in foreign markets at competitive prices in order to have the highest possible price for the cooperative's total output of the product.

It may not be desirable to adhere to this pricing procedure on a seasonal or annual basis because it can lead to an in-and-out export sales program that prevents development of relatively stable foreign markets for the co-op's product. Recapturing lost markets can be both difficult and expensive. It also may be difficult to calculate the total output value in the long run, but this technique deserves consideration as a means of maximizing returns to producer-members. There must be a balance between shortrun and longrun considerations.

4. Another pricing technique is to guarantee an established foreign buyer who offers attractive long-term sales opportunities (especially for a branded product) a certain proportion of the co-op's annual volume of production. A price or range of prices could be agreed upon ahead of time.

5. Finally, "introductory" pricing has a place in export marketing as well as in domestic marketing. Exceptionally low prices during an initial sales effort may encourage more potential users to try a product. They may find that they

like it and are willing to pay a competitive price for it. To avoid misunderstandings, it may be desirable to indicate that the introductory price is a temporary bargain price.

Some degree of flexibility in agricultural pricing is needed. Sales conditions vary between buyers and markets and over time. Foreign sales are extremely important to some cooperatives but not to others. Prices are highly volatile for some commodities but quite stable for others. The levels of competitive prices in a foreign market may be quite well known among sellers of some commodities (e.g., wheat) while sellers of other commodities (e.g., fresh cranberries) may have relatively few sources of price information. Thus, there is no set pattern for agricultural export pricing.

Estimating Costs

The marketing margin is necessarily wider for export shipments than for domestic shipments. This creates pressure on cooperatives to control export marketing costs and to complete export transactions as efficiently as possible.

An efficient cost accounting system is essential. It enables a co-op manager to develop realistic price quotations for both foreign and domestic sales. Once a cooperative has established a basic value for its commodity, the cooperative can begin to consider export marketing costs.

Sales Offer and Contract

An export sale, like a domestic sale, involves both a sales offer and a sales contract. These are likely, however, to be more formal and precise documents in exporting than in domestic marketing.

A few cooperatives regularly issue price lists to established foreign customers. Most, however, begin negotiations with a more formal sales offer. Sometimes the foreign buyer will make the initial contact by inquiring whether a given quantity of a specified commodity is available, submitting a detailed purchase offer, including a designated purchase price, or issuing a tender.

A "tender" is a formal bid by an individual buyer to purchase-or a formal offer by an individual exporter to sell-a specified quantity of a selected commodity under prescribed conditions. A "public tender" to buy is open to all qualified suppliers, whereas a "private tender" to buy is open to selected suppliers only.

A sale to a foreign government or its representative usually involves a tender to buy that specifies the characteristics of the commodity, shipping arrangements, and payment provisions. Many export sales of grain, soybeans, and livestock have been made in response to tenders.

Sales Offer

An export sales offer includes a price quotation and a description of the product, specifies a quantity, or range in quantity, of product available, and specifies shipping arrangements and payment terms.

The foreign buyer will'need to know the number of individual items to be handled, such as bags or cases of designated size or weight. In order to arrange for transportation and to estimate its cost, the buyer will need to know the gross and net shipping weights and the cubic volume of each packing unit and the total shipment. The buyer may also need the dimensions of each packing unit.

In some instances, an exporting cooperative may wish to offer various options. These may relate to the form in which the product will be shipped, packaging, mode of transportation, shipping date, price discounts related to quantity or payment in cash, or other details.

The foreign buyer will also need to know the approximate date that the shipment can be loaded at a U.S. port or be expected to arrive at a foreign discharge port. When a sale is completed, the buyer will need definite information.

A sales offer is usually qualified by setting an expiration date or by inclusion of the term "subject to confirmation." The objective in each case is to give the cooperative some flexibility in case of a sudden rise in domestic or foreign market prices for the commodity, development of another sales opportunity with more favorable terms, or the acceptance of offers by a number of buyers that result in more orders than the cooperative can fill.

It is customary to receive counteroffers from buyers that seek to purchase supplies of a commodity at a lower price than that offered by the exporter. This is a part of the sales negotiation process. In some instances, an exporter will anticipate such a reaction and set its first offering price at a higher level than it expects to receive. This can backfire, however, if the buyer simply purchases from another lower priced source.

In all its decisions with respect to price and other terms of sale, an exporting cooperative will base its decision on both current and long-term assessments of its supply situation and alternative sales possibilities. If delivery and payment are not to be made promptly, special consideration will have to be given to developments that may occur before delivery and payment are made.

A "pro forma invoice" is often supplied to a foreign buyer clearly interested in making a purchase. This is a temporary document that (1) enumerates terms of sale that tentatively have been agreed to by both the cooperative and the buyer; (2) provides estimates of shipping specifications, costs, and dates: and (3) assists the buyer to meet certain requirements that may exist in its country. For example, the buyer may need an import license and may need to present a pro forma invoice to receive one.

Sometimes the importer will accept the terms of a pro forma invoice and commit, by FAX, letter, or other means, to a purchase on those terms. In other cases, the importer will submit a formal export order. The provisions of an export order are similar to those of a pro forma invoice, but it is a document prepared by the buyer rather than the exporter.

An export order is often used when there has been no prior agreement on such matters as specifying the documents to be handled by the buyer, foreign bank references, U.S. trade references, and the form and nature of markings on each shipping container that are required by the buyer.

Most of the information in the buyer's export order may be entered on a special form called a "house order." The purpose is to have a uniform way of summarizing information received in export orders from various buyers. This simplifies the internal handling of the information by the cooperative.

Sales *Contract*

Each export sale should be confirmed in writing in some manner. Both buyer and exporter must be firmly committed. A sales contract is the safest way to form and record a contractual agreement.

The sales contract may be in essentially the same format as the pro forma invoice. However, it must be signed by both parties. This type of agreement is generally satisfactory in a continuing sales program involving a dependable foreign buyer. In other cases, however, more detail may be necessary. Sometimes, for example, provision should be made to compensate for an impending change in the exchange rates of the U.S. dollar and the importer's currency.

A more detailed contract may be necessary if the buyer has limited experience with imports of U.S. agricultural commodities or is new to the trade. For example, in a sale on Cost and Freight (CFR) delivery terms, it may be to the advantage of the cooperative to explicitly state in the contract that the buyer will obtain and pay for the necessary marine insurance. The time and place at which ownership transfers from exporter to importer should also be specified. In a CFR sale this would normally occur when the commodity is unloaded over the ship's rail.

The other terms of sale-commodity specifications, packing, payment, shipment, documents-may be described in greater detail than was necessary on the pro forma invoice. Further, it may be appropriate to state in the contract that the seller will make delivery as scheduled, unless there is some extraordinary event resulting from nature or unforeseen human acts, such as storms at sea or at port, shipwreck, strikes, riots, civil commotions, or acts of war.

In some countries it is customary to have the sales contract expressed in English. In other countries, however, it may be necessary to use the local language. Great care must be taken to be certain that a translation has the same meaning as a contract expressed in English. Even within the same language, words and phrases will vary in meaning between dialects.

Sometimes misunderstandings, or accusations of noncompliance with the terms of a sales contract, lead to disputes between exporter and foreign buyer. The procedures for resolving such disputes varies greatly according to circumstances and the individual importer and foreign country involved.

In any sales contract each party seeks to obtain a maximum degree of flexibility for itself and a minimum for the other party. The optimum result is a workable compromise.

*Payment **Terms** of Sale*

There are several basic ways in which a cooperative can arrange to receive payment from a foreign buyer. As with delivery terms, the importer and the exporter must agree upon a payment term of sale in the sales contract. This payment term will define the rights and obligations of each party with respect to payment for the export shipment.

One matter on which both parties must agree is the currency in which the exporter is to be paid. Cooperatives usually demand payment in U.S. dollars. This avoids the risk and complications of accepting payment in a foreign currency, which must then be exchanged for U.S. currency. In certain instances, however, being able to accept payment in a foreign currency may give a cooperative an advantage over competing suppliers.

Each party wishes to minimize its risk exposure in the transaction, and each wants terms most favorable to itself. The importer wants to delay paying for the shipment as long as it can, while the exporter wants to receive payment as soon as **possible.The** payment terms of sale that a cooperative can offer to foreign buyers can give it a competitive edge over competing suppliers. Before determining which payment terms of sale are acceptable to the cooperative, the export staff should consult with an international banker. The following payment terms of sale are arranged in order from the least risky to the most risky for the exporter:

Cash in Advance-Receiving payment before sending the shipment would seem ideal for the exporter, but importers are reluctant to do this for obvious reasons. They lose use of those funds for the period of time it takes for the shipment to arrive, and they must trust the exporter to deliver the shipment in accordance with contract specifications.

Letters of Credit ***(LOC)*—An** export letter of credit is a document issued by a bank at the importer's request in favor of the exporter. It provides the issuing bank's promise to pay a specified amount of money contingent upon the exporter's presentation of certain documents related to the transaction. The documents confirm that conditions stated in the letter of credit-e.g., terms of sale, shipping date, insurance coverage, etc.-have been met.

An LOC may be either irrevocable, which means that it cannot be altered or canceled without the consent of all parties concerned, or revocable, meaning it can be altered or canceled solely at the buyer's request. When an LOC is irrevocable, the bank must pay, even if the buyer defaults. In practice, nearly all **LOC's** are irrevocable.

If an LOC is confirmed by a U.S. bank, the exporter is assured payment by that bank, even if the buyer's foreign bank defaults.

***Drafts and Documentary Collection: Documents Against Payment (D/P) and Documents Against Acceptance (D/A)*—In** the context of an export sale, a draft is an order from the exporter to the foreign buyer to make payment for the commodities being shipped. It is a financial document drawn by the exporter, through a bank, against the assets of the importer for the value of the export shipment. It is similar to an LOC, but it is less secure because the exporter has no recourse to the bank if the buyer defaults.

A "clean draft" is one that is sent to the importer's bank without any of the transaction documentation, while a "documentary draft" is sent with the documents attached.

There are three types of drafts commonly used in export transactions: (1) A "sight draft" requires that the importer promptly pay the value of the draft: (2) a "time draft" requires that the importer pay within a specified period of time, such as 30, 60, or 90 days after accepting the draft: and **(3)** a "date draft" requires payment by a date that is specified on the draft, regardless of when the draft is accepted by the importer. An importer can delay paying either sight or time drafts by delaying acceptance of the draft. Such delays can be prevented by using a date draft.

Under D/P terms, payment is to be made at sight of the completed documents. This method involves the use of a sight or date draft: it is used when sellers wish to retain control of the shipment either for credit reasons or for the purpose of title retention.

A bank acts as intermediary and is presented with the original bill of lading endorsed by the shipper and other documents (packing lists, consular invoices, insurance certificates, etc.) that are not released to the importer until payment of the draft. The advantage of this method is that the exporter retains title to the goods until payment is made. The disadvantage is that the importer can refuse to pay the draft and the exporter is then responsible for shipping the goods back to the United States at its own expense or reselling the shipment to a third party in the foreign country.

D/A terms are similar to D/P terms, except that the importer is only required to agree to pay the draft by a specified future date in order to receive title and other documents to the shipment. Time or date drafts are used in these transactions.

***Cash Against Documents (CAD)*—CAD** is similar to D/P, but instead of using a sight draft, the sales offer and contract will provide for "cash against documents" or "cash against documents at first presentation." These phrases mean that the buyer is to pay promptly as soon as the bill of lading, invoice, and other documents are received at its designated bank. No financial documents or drafts, however, are sent to the designated bank. This method of collection can be used to avoid paying taxes on financial documents, or in those cases when the importing country does not use drafts.

The necessary documents are airmailed to the foreign bank, and payment is made directly to the exporter, its agent, or its bank. Under this arrangement, the U.S. bank normally performs no special services, has no responsibility for collection of payment, and does not receive a special fee for such services.

A relatively small U.S. exporter working with an export agent that has close personal contacts and experience with foreign buyers may rely on the agent to select buyers with high credit and performance ratings to which sales can be made on CAD basis.

Open Account-This method of payment involves having the commodities shipped to the foreign importer who takes the title according to the delivery term of sale. Payment is made at some future date, such as 30 days after delivery, or at the end of each month if deliveries are made frequently. In effect, the exporter is making an interest-free loan for the value of the shipment from the time of the delivery until payment is made.

Consignmen t-In a consignment sale, the commodity is shipped to the foreign importer and payment to the U.S. exporter is deferred until the importer has resold the commodity. The importer provides a statement showing the gross sales value, its expenses, its commission, and the amount due the exporter.

For the exporter, this is a high-risk method of payment. If there is a sharp drop in price on the foreign market, exceptional deterioration of a perishable product, or an inaccurate cost statement from an unscrupulous importer, the exporter may not receive enough money to cover its international freight expenses. Conversely, for the importer this is a low-risk situation. The importer cannot lose money except under extraordinary circumstances where the receipts from sales are less than expenses.

***Barter and Coun tertrade*—Countertrade** is an arrangement for payment or financing by a means other than a currency-for-goods basis. Barter-goods directly traded for goods-is the most basic form of countertrade.

Barter transactions are more frequently arranged with importers from developing and centrally planned countries. Many of these countries either have currencies that are weak relative to the U.S. dollar or "soft" currencies that are not accepted in world trade.

This method is not popular with U.S. exporters because it increases transaction costs, requires additional management time and planning, and is characterized by detailed contract requirements. The ideal countertrade arrangement for a cooperative would be where it receives goods that it can use internally or sell to members.

Alternative Methods of Financing an Export Sale

Banker's Acceptance ***(BA)*—When** a cooperative concludes an export sale where a letter of credit or documentary collection is used, it can employ banker's acceptance (BA) financing to receive immediate payment. A bank creates a BA when it formally accepts, or agrees to pay, a letter of credit or draft that calls for payment from a buyer at a future date. An exporter may either keep the BA document until it matures, and then present it to the bank for full payment, or sell it to the bank or an investor at a discounted amount.

BA's are negotiable instruments which are marketed as short-term investments. Banks can use BA financing to provide credit to their customers without requiring the use of their own funds.

***Forfaiting/Factoring*—Exporters** who use these methods of export finance sell their trade debts or assign their rights to claim payment to a bank, forfaiting house, or factoring house. The cooperative that uses these methods will have improved liquidity because its balance sheet will not show new contingent liabilities. Moreover, these methods eliminate the cooperative's need for Eximbank guarantees, thereby saving administrative costs and premium fees.

Forfaiting differs from factoring in two basic ways. First, forfaiting is used for financing an individual export sales transaction, while factoring can be used for financing either an individual transaction or a group of them. Second, the forfaiter has no recourse to the exporter in the case of nonpayment by the foreign buyer, while the **factorer** may or may not have such recourse, depending upon the terms of the factoring transaction.

Minimizing Credit Risk

Cooperatives can minimize the credit risks of an export transaction in three ways: (1) negotiate payment terms of sale that offer it reasonable security, (2) obtain adequate commercial credit insurance, and (3) investigate the credit history of a foreign buyer. These subjects are explained in the next section under "Commercial and Political Risk. "

Sources of International Finance

***CoBank*—The** National Bank for Cooperatives **(CoBank)** offers a complete range of international financial services to US. agricultural cooperative exporters through its International Banking Division (IBD), including export financing, foreign exchange services, funds transfer, and country risk analysis.

Cooperatives can finance their export transactions through CoBank in a variety of ways. CoBank offers direct documentary collection and letter of credit **(LOC)** services. In addition, it can provide banker's acceptance, forfaiting, and factoring services.

If a cooperative does agree to accept payment in a foreign currency, it can sell that currency to CoBank for U.S. dollars. To counter the risk of a loss from fluctuations in foreign exchange rates, the cooperative can also enter into a "hedging" contract with CoBank for the future sale of the foreign exchange at a specified rate of exchange. Hedging contracts are explained in the next section under "Foreign Exchange Risks."

CoBank can send funds for any co-op customer for payment or transfer to individuals or businesses abroad. It has a number of reciprocal depository accounts with correspondent banks to assist with this service.

IBD economists and credit officers evaluate the risks of lending to a foreign country by considering political and social factors, domestic economic and balance of payments performance, ability and willingness to service their foreign debt, and various financial ratios.

Finally, CoBank is a major participant in the USDA Export Credit Guarantee Programs, **GSM-102** and GSM-103, which are explained under "Commercial and Political Risks."

Other Commercial Banks-There are several hundred commercial banks in the United States that have international departments, but a great number of those do not find it profitable to serve small- or medium-sized exporters. Cooperatives seeking a bank for international financial services should carefully consider if the bank is genuinely interested in serving an agricultural business of their size.

When considering a prospective bank, a cooperative should ask the following questions:

- What is the size and experience of the international department?
- What are the charges for confirming a letter of credit, processing drafts, collecting payment, or other services that the cooperative will require?
- Can the bank provide buyer credit reports and country risk analysis?
- Does it have experience with U.S. and State government financing programs that support agricultural export transactions (such as the USDA Export Credit Guarantee Programs)?
- What other services can it provide?

Regulatory Concerns

Cooperative exporters need to be aware of both U.S. and foreign trade regulations that affect their foreign sales, Below are brief descriptions of some of the more important U.S. export regulations. Sources of information on foreign import regulations are listed in the second section of this report, "Sources of Assistance." This guide does not offer details on any of these regulations. Cooperatives with questions on these and other U.S. trade regulations should consult with a freight forwarder, an attorney, or the U.S. Department of Commerce **(DOC).**

U.S. Export Regulations

Export Licenses-For reasons of national security, foreign policy, nuclear non-proliferation, or domestic shortages of certain products, the Bureau of Export Administration **(BXA)** within the Department of Commerce controls exports through a system of export licensing. Licenses are granted for transactions, not firms. There are two types of export licenses-validated and general.

A validated license is a specific grant of authority from the Federal Government to a particular exporter to export a specific product. An exporter must apply for such a license. They are granted on a case-by-case basis for either a single transaction or for a specified period of time. Export shipments requiring such licenses cannot be made without prior approval.

A general license is a broad grant of authority to all exporters for certain categories of goods. Export shipments that can be made under general license authorization do not need prior approval. Exporters do not have to apply for such licenses.

Cooperatives that make direct export sales need to be aware of which licenses they need for each transaction. This guide does not include the procedures for determining which license is appropriate. Cooperatives with questions about export licenses should contact the:

Bureau of Export Administration
Exporter Assistance Staff
Office of Export Licensing
Room **1099D**
U.S. Department of Commerce
Washington, DC 20230
Telephone: (202) ***377-4811***

Antiboycott Regulations-It is against U.S. law for an exporter to participate in a foreign boycott or other restrictive trade practices fostered by foreign countries against countries that are friendly to the United States. In addition, U.S. exporters must report when foreign governments request their participation in a such a boycott. Cooperatives with questions about complying with antiboycott regulations should contact the:

Office of Antiboycott Compliance
Room ***3886***
International Trade Administration
U.S. Department of Commerce
Washington, DC 20230
Telephone: (202) 377-2381

Antitrust Lows-Exporters need to be aware of, and comply with, the antitrust laws of both the United States and the importing country, Under U.S. antitrust law, business practices are judged by two legal standards. Some practices, called "per se" violations, are conclusively illegal: these include price-fixing agreements and conspiracies, divisions of markets by **competi-**

tors, and certain group boycotts and tying arrangements.

Most practices are judged under a second legal standard, the "rule of reason." Under this standard, for a practice to be found in violation of the law, it must be shown that the act occurred and had an anticompetitive effect. Many factors are considered, including business justification of the practice, its impact on prices and output in the market, barriers to entry, and the market shares of the parties.

The Export **Trading** Company Act of 1982 offers exporters certain protections from antitrust regulations. Competing cooperatives and investor-owned suppliers seeking to establish an export trading company (ETC) can apply for a Certificate of Review from the U.S. Department of Commerce. A certificate can be issued if it is determined that the proposed export trade activities and methods of operation will not significantly diminish domestic competition or result in a restraint of trade within the United States.

For the conduct described in the certificate, the ETC will have immunity from Government antitrust suits: and in private party actions, liability will be reduced from triple to single damages. For more information on **ETC's,** contact the:

Office of Export Trading Company Affairs
Room ***5618***
U.S. Department of Commerce
Washington, DC 20230
Telephone: (202) **377-5131**

Antidiversion Clause-To help ensure that U.S. export shipments only go to legally authorized destinations, the Federal Government requires a "destination control statement" on the commercial invoice and bill of lading for almost all export shipments. Exceptions are shipments intended for consumption in Canada and shipments being made under certain general licenses.

Intellectual Property Rights-Trade marks, patents, and trade secrets are all considered "intellectual properties." Cooperatives with intellectual properties to protect should investigate the intellectual property laws of a foreign country before they start exporting to that market.

Foreign Corrupt Practices Act *(FCPA)*—**The** FCPA prohibits payments, offers of payments, or gifts to government officials, political parties, or political candidates of a foreign country if made for the purpose of obtained, retaining, or directing business to any person. The act also establishes recordkeeping and internal accounting control requirements that firms must follow,

Foreign Import Regulations

When evaluating a prospective foreign market, co-ops should be familiar with any import barriers that may adversely affect their exports. As mentioned earlier in "Sources of Assistance," the Trade Assistance and Planning Office (TAPO) of the USDA Foreign Agricultural Service monitors the agricultural trade barriers of foreign governments. Cooperatives seeking information on nontechnical trade barriers in a specific foreign market should contact them, while those with questions or comments about proposed or existing foreign government standards should contact the USDA Technical Office (TO). Information on contacting either **TAPO** or TO is given above in "Sources of Assistance."

COMPLETING THE EXPORT TRANSACTION

Freight Forwarders

The details of export shipping are often handled by an "export" freight forwarder (also referred to as an "international" or "foreign" freight forwarder). The forwarder acts as an agent for the exporter in moving cargo to foreign destinations.

Freight forwarders are a key link in the export marketing chain. They (1) provide information to exporters about foreign market regulations and practices, including packaging and labeling requirements: (2) assist with domestic and international transportation arrangements; and (3) assist with the preparation and handling of various documents. They may also arrange for marine insurance and suggest sources of financial assistance.

Freight forwarders help exporters transport their shipments efficiently. To do this, they must know exactly what is expected of them. Following discussions of a proposed shipment, an exporter should prepare a set of "shipping instructions" that describes the documents the forwarder is to prepare, the services the forwarder is to perform, and the manner in which the shipment is to be handled and stowed by the carriers for inland and overseas transportation. The forwarder may respond with a completed form indicating "acknowledgment of shipping instructions."

Freight forwarders operate on a fee basis paid by the exporter and often receive an additional percentage of the freight charge from the carrier. The forwarder's fees vary and consist of an agreed-upon amount plus documentation charges.

All freight forwarders must be licensed by the Federal Maritime Commission (FMC) to handle ocean freight at U.S. ports and by the International Air Transport Association (IATA) to handle air freight in the United States.

A cooperative with a large volume of exports may create its own export department to prepare documents and to make transportation arrangements to its established sales outlets. For many cooperatives, however, there is no substitute for a freight forwarder.

Additional information on freight forwarders may be obtained from port authorities, banks, or the National Customs Brokers and Forwarders Association of America located at:

One World Trade Center STE 1109
New York, NY 10048
Telephone: (212) 432-0050

Documentation

In international trade, a "document" is an important paper providing certain essential information pertaining to a specific shipment moving internationally. In some instances, it is proof that designated commodity or shipping requirements have been met. Use of a printed form is customary and in some cases mandatory.

A "document" differs from other business forms in that it is seen by two or more businesses or regulatory entities. For example, any or all of the following might view a document prepared by or for an exporter: the freight forwarder, the U.S. Department of Agriculture, the U.S. Department of Commerce, the U.S. Customs Service, the carrier(s), a foreign government import inspection or control agency, the foreign importer, the foreign bank, or the U.S. bank.

Some of the documents most frequently used in agricultural exporting are described below and others, as noted, are covered elsewhere.

Bill of Lading—A bill of lading is a contract between the owner of the shipment and the carrier. There are two types: a "straight" bill of lading, which is nonnegotiable and must be sent straight to the consignee, and the negotiable or "shipper's order" bill of lading, which is a negotiable document that must be endorsed by the shipper. The former is typically used for shipments that are made on an open account, while the latter is used for letter of credit or documentary collection transactions.

A bill of lading is referred to as "clean" when it does not have any adverse notations made by the carrier relating to the condition of the shipment. This can serve as proof that a shipment was actually loaded and received by the carrier and that the carrier had no reservations about the shipment's condition.

Commercial Invoice—A commercial invoice is an itemized account, prepared by the exporter for the buyer, that specifies the kind and quantity of commodity shipped, the national origin of the commodity, mode of international shipping, carrier loading date, export markings used, destination of shipment, delivery and payment terms, destination control statement, and prices, discounts, and total amount of money due to the exporter. It includes the name and address of the shipper and of the consignee (buyer or its agent), and reference numbers and date of sale. It is also a request that payment be made.

The buyer needs the commercial invoice to prove that it owns the shipment and to arrange for payment to the exporter. In addition, some foreign governments use it to assess customs duties.

Certificate of Origin-A certificate of origin certifies the country from which a shipment originated. It is required by some foreign governments even when such information is provided on the commercial invoice.

Inspection Certificate-There are several kinds of inspection certificates, including phytosanitary certificates declaring that fruits and vegetables are free of diseases, health certificates reporting the condition of livestock, and grade certificates certifying that a shipment of agricultural goods meets certain quality criteria. These certificates can all be used to assure foreign governments that a shipment meets their technical regulations.

As mentioned earlier in "Sources of Assistance," Food Quality Acceptance Service certification can be used to assure a foreign buyer that its shipment has been prepared in accordance with contract specifications.

Shipper's Export Declaration (SED)*—Required** for export shipments larger than ***$500, SED is a document used both for U.S. Government statistical purposes and for moving a shipment through U.S. customs. Each commodity being exported must be identified with a Schedule B number. (Schedule B numbers are explained in "Market Research.")

Dock and Warehouse Receipts-Dock and warehouse receipts are used to transfer accountability when a shipment is moved by a domestic carrier to the port of embarkation and left with the international carrier for export.

Export Packing List-See "Packing."

Export License-See "Regulatory Concerns."

Insurance Certificate-An insurance certificate is a negotiable instrument which must be endorsed before it is sent to a bank, along with other documentation. If the exporter provides insurance, this certificate states the type and the amount of coverage.

Destination Control Statement-A destination control statement lists the countries to which the shipment may be sent. When applicable, it will appear on the commercial invoice, the bill of lading, and the shipper's export declaration.

Export Order-See "Sales Offer and Contract."

Pro Forma Invoice-See "Sales Offer and Contract."

Shipping Instructions-See "Freight Forwarder."

Packing

The first step in export packing is to assemble the kind and quantity of commodity needed. The second step is to pack the commodity according to specifications given in the final sales agreement (contract).

Special labels with information expressed in a foreign language and weights and measures listed in metric terms might be needed on consumer-size, and even larger, packages.

Both the export package and the outer container should be designed and filled with the goal of minimizing product losses. Causes of such losses include excessive movement of the product within the container or too much weight on the product, as with fresh apples and peaches. Moisture damage, to wheat flour for example, is another problem. Some perishables may be damaged by excessively high or low temperatures.

The threat of pilferage of products, such as oranges that can be easily consumed on the spot or high-value products that can be moved rather easily and sold for cash, requires special packing and handling precautions.

Export shipping places extra stress and strain on the packages and containers. A sling may be used to hoist commodities over a ship's rail, or conveyors or chutes may provide a rugged ride into or out of a ship's hold. Riding the waves tends to be rougher than riding the rails. And handling and storage practices and facilities at an unloading port may further test the packing.

Each export container must be carefully marked on at least two sides to be sure it gets to its destination. In many cases the buyer will request use of its shipping mark. Standard symbols and foreign phrases help to ensure proper handling. An export freight forwarder can help a cooperative make sure that all necessary markings are made in the proper form.

An export packing list should be prepared which lists information about each package or container. The export packing list itemizes the contents: the net, tare, and gross weights: the measurements: and the volume of space required for each package. In addition, the list should include illustrations of the shipping marks.

The packing list has two uses: (1) It is used for calculating the cubic space required for shipping. This calculation is made by the exporter's shipping department or a freight forwarder. (2) It serves as a checklist to ensure that the cargo received is as described on the list: such checking is made by representatives of the carrier(s), port authorities at the loading port, customs officials at both the U.S. loading port and the foreign port of destination, and the buyer.

Transportation

The domestic transportation of an export shipment may be handled in much the same way as that of any domestic shipment. It may often be arranged by a co-op's domestic traffic department. However, selecting the U.S. port where the export shipment will be sent, delivering it there, and arranging any international transportation for it will require additional expertise. For cooperatives, this may come from either a freight forwarder or the co-op's export department.

The development of intermodal shipping—exporting in containers that can be efficiently handled by different types of carriers-has revolutionized the export shipping process. Now, under one bill of lading, a co-op's export shipment can be transported in containers by train, truck, *or* barge to an U.S. airport *or* seaport and then transported by ocean or air carrier to its foreign destination. This is typically more efficient, and the shipments are far more protected from damage and pilferage.

Shipments may be transported to overseas destinations by either ocean or air carrier. For destinations in North or South America, railroad or truck may also be used. The vast majority of agricultural exports are shipped overseas by ocean carriers.

Ocean Carriers-Cooperatives seeking the servics of an ocean carrier have three basic alternatives. The first two are variations of a common carrier, and the third is a private carrier.

A common carrier is a firm that transports shipments to specified destinations for stated freight rates. In the case of an ocean carrier, it is a steamship line that provides regularly scheduled service between selected ports and publishes uniform freight rates and contract conditions. By U.S. Government regulation, a common carrier is required to carry all goods offered if accommodations are available and the established rate is paid. A common carrier may operate as either part of a "conference line" or independently.

1. *Conference* Carrier-A conference carrier is a member of a "conference line," which is a group of common carriers serving the same trade route(s). The conference line sets uniform freight rates and establishes certain trade practices for all of its member carriers. Exporters that contract with a conference line may obtain a lower shipping rate than if they did not have a contract. They are committed, however, to shipping most or all of their cargo that is bound for destinations served by the conference on member vessels.

2. *Independent* Carrier-An independent carrier is a common carrier operating outside of a conference line and making shipping arrangements on a space-available basis. When independent carriers are in direct competition with conference lines, they usually charge lower than conference rates.

3. *Private Carrier-A* private carrier, or "tramp ship," is a vessel without fixed itineraries or schedules. Individual exporters negotiate contracts with a private carrier's owners.

The type of carrier that a cooperative selects will depend upon the nature of the individual export shipment, the pattern of the cooperative's exports over time, and the general availability and efficiency of service offered by the different types of carriers.

Cooperatives selecting common carriers must "book" space (sign a "booking contract" to reserve space) for a cargo of a given size on a specific vessel. The booking contract is binding to the extent that the carrier has the right to charge for reserved space that is not used, or to charge for reservations canceled without adequate notice.

Transport rates can be highly complex and can be based on commodity type, value per freight ton, weight as distinct from volume, weight or volume (whichever gives the highest yield to the carrier), volume as distinct from weight, a percentage of the value of the goods, or per-unit prices for unusual or awkward loads.

There are significant variations in transporting less than shipload quantities. Some agricultural products may be shipped in ordinary dry cargo space, while others may require controlled atmosphere facilities or "reefer" space (refrigerated holds). Shipments may also be transported in van containers, either refrigerated or unrefrigerated, on specially designed container ships or on the decks of conventional ships.

Transporting a shipment from a U.S. port to a foreign port may not end the exporter's transportation responsibilities. Sometimes the least expensive way to make shipments to several buyers is to consolidate them into a single transocean shipment. Arrangements can be made for "drop" shipments to various foreign buyers, either from one or several foreign discharge ports.

Many countries have "foreign trade zones" or "free trade zones" where quantities of a commodity can be stored, processed, or exhibited without payment of customs duties. Sometimes it is possible to ship large volumes of a commodity to such a zone and then reship smaller lots to buyers in other markets. In this way, both the cost of shipping and the payment of customs duties are kept to a minimum.

Air carriers are another option for co-op exporters. Although they charge higher rates than ocean carriers, their costs may be offset by lower domestic shipping costs (by using a local airport rather than a coastal seaport) and quicker delivery times. In addition, shipments of agricultural goods are typically exposed to less physical risk on air carriers, and thus marine insurance costs are likely to be lower. Air carriers may be especially useful to cooperatives exporting perishable high-value agricultural products.

As mentioned in "Sources of Assistance," cooperatives can get transportation assistance from USDA's Office of Transportation (OT).

Risk Management

Sound risk management involves identifying sources and degrees of risk that the exporting cooperative faces, analyzing the co-op's capacity to accept varying degrees of risk given its goals and abilities to absorb losses, and developing strategies that are compatible with those goals and available resources.

The four types of risk associated with export transactions are physical, price and cost, commercial and political, and foreign exchange.

Physical Risk

Marine cargo insurance (or simply marine insurance) policies offer protection to shippers against financial losses resulting from the loss of, or damage to, the exported goods while in transit from one destination to another. It is advisable for a exporter to obtain marine insurance coverage on its shipments because *(1)* carriers, under law, have very limited liability: and (2) if the export sale is being financed, the bank or intermediary will usually insist that the shipment, which serves as collateral, be adequately insured while in transit.

Arranging the Insurance-The exporter is responsible for arranging insurance coverage for each sale that is made on CIF delivery terms. If the export sale is made on CFR, FOB, or FAS then the buyer assumes responsibility for insurance.

In these situations, however, the exporter may still wish to arrange the insurance because then it may be assured that (1) adequate insurance coverage has been obtained: (2) any claims will be paid without the difficulties of foreign litigation or foreign currency exchange: and (3) banks and other financial intermediaries will be satisfied, since insurance documentation is less readily available to them when the importer arranges the insurance.

In addition, the exporter may arrange for insurance that covers the shipment for the entire voyage. This simplifies the collection of claims because there are no rival parties to dispute responsibility of coverage. The exporter may turn the insurance policy over to the foreign buyer with the titles and other documentation, The payment of the insurance premium may be made as specified in the delivery terms of sale, regardless of which party arranges the insurance.

Marine insurance brokers are intermediaries that help exporters to obtain adequate insurance coverage at reasonable rates. In addition, they help exporters to settle claims. Exporters pay brokers to act as their agents, while marine insurance companies pay brokers a commission for each of their policies that the brokers place.

Adequate Coverage and Cost-The exact amount of insurance needed by an exporting cooperative can be determined in consultation with a marine insurance broker. The rates charged by most marine cargo insurance companies depend upon a number of factors, including the type of coverage desired, shipping routes, types of conveyances, nature of commodities being exported, and duration of voyage.

Types of Marine Cargo Insurance-An exporter has three options for insuring an export shipment: (1) obtain a "specific policy" to cover each shipment, (2) obtain an "open policy" to cover all shipments during a specified period, or (3) arrange to have its shipments covered by a freight forwarder's open policy.

There are four types of losses recognized by marine insurance underwriters:

1. Total loss-an entire shipment is destroyed or not salvageable.

2. Total loss of part of a shipment-some, but not all of the separate parts, units, or packages of a shipment are totally lost.

3. Particular average loss-a shipment is partly lost or damaged.

4. General average loss-a shipment is voluntarily sacrificed in the interests of the carrier and other shippers (e.g., part of a shipment is damaged by firefighters who save the ship and other cargo.)

The word "average," as used in the insurance industry, means "partial loss." Marine insurance policies offer different types of coverage, depending upon the type of loss suffered.

The three most common types of marine insurance coverage are "free of particular average" (FPA), "with particular average" (WPA), and "all risks" (AR).

FPA is the least comprehensive policy in general use which covers total losses and general average losses, but not particular average losses. Two more liberal variations of FPA exist: FPA-American conditions and FPA-English conditions. Both of these variations offer all the protection of a normal FPA policy, along with coverage of partial losses occurring aboard a vessel that has been stranded, sunk, burned, or in collision at some point during its voyage. Under FPA-American conditions, however, it is necessary for the partial loss to have been directly caused by stranding, sinking, burning, or collision, while under FPA-English conditions no such direct loss need be established for coverage to be extended.

WPA is a more comprehensive policy that offers all the protection of FPA policies, plus coverage for particular average losses, such as a partial loss resulting from salt water damage.

AR is the most comprehensive and expensive type of marine cargo insurance: it offers protection from most external causes of physical loss. Exceptions include losses from delay, product deterioration, loss of market, strikes, riots, civil commotions, and war. It should be noted that insurance coverage against virtually any cause of damage can be obtained for the right price.

Loss Prevention Service--Many brokers and marine insurance companies offer a loss prevention service, usually at no charge to the exporter since it benefits both parties. It may be to the exporter's advantage to select an insurance company or broker that offers such a service because it assists in keeping down losses, and thus premium rates.

Pricing Risk

Unpredictable variation in the prices of the commodities being exported and in the prices of marketing services which the exporter is using, notably transportation, can each be significant sources of risk. Such price variation may result in either financial losses or unrealized profit opportunities for the co-op exporter.

Some cooperatives mitigate the pricing risk of their export sales by hedging through futures markets. For cooperatives exporting commodities that are not traded in organized futures markets, forward contracts or the holding of inventories may be used to help reduce such risk exposure.

Exporters are also exposed to fluctuating ocean freight rates. A cooperative, or group of cooperatives, can reduce the risk of loss from such rate fluctuation through either chartering or acquiring a vessel. Either option, however, would require significant expertise, capital, and export sales volume.

Commercial and Political Risk

Cooperatives making export sales face the risk that the importer will fail to pay for the shipment. Such default problems may result either from commercial factors such as economic deterioration in the buyer's area, unanticipated competition, or fluctuations in demand, or from political factors such as war, riots, or seizure of shipment by a foreign government.

Market knowledge and contacts are essential to evaluate and reduce commercial credit risks in individual export transactions. The exporter, or an intermediary in its service, should have access to credit reports on potential importers and should be able to analyze them and follow up on any difficulties encountered in receipt of payment.

Further, the exporter may benefit from discussions with other firms that have done business with a prospective importer.

An exporter may also reduce the commercial risks of default by negotiating for relatively favorable payment terms of sale, such as requiring the importer to pay in advance or to post an irrevocable letter of credit in favor of the exporter.

In addition, the exporter may obtain commercial credit insurance. Coverage for both commercial and political risks is available through the Foreign Credit Insurance Association (FCIA). The FCIA is an association of over 50 major property, casualty, and marine insurance companies operating in cooperation with, and as an agent of, the Export-Import Bank of the U.S. (Eximbank).

The FCIA offers U.S. agricultural exporters three types of policies:

1. ***Short-term single-buyer*** policy-Covering either single or multiple shipments under a sales contract, a short-term single-buyer policy is custom written for the terms of an individual export transaction, The standard policy period during which shipments can be made is generally 3 months, though it may be up to 12 months for multiple shipments. Coverage applies to credit sales to a foreign buyer, or export letters of credit opened by a foreign issuing bank, for U.S. goods produced and shipped from the United States during the policy period. Cover is generally provided for credit terms of up to 180 days, though it may be extended for up to 360 days for export sales of bulk agricultural commodities. Percentages of cover are equalized for both commercial and political risks: for bulk agricultural commodities, 98 percent: for sovereign obligers (foreign governments), 100 percent: for letter of credit transactions, 95 percent: and for private sector obligers, 90 percent.

2. ***Short-term multibuyer export policy—*** Generally written to cover shipments for a l-year period, a short-term multibuyer policy is designed to cover a "reasonable spread" of an exporter's eligible sales. (What constitutes a "reasonable spread" is specified in the policy.) At the inception and each annual renewal of the policy, the exporter may choose to cover either 95 percent of commercial risks and 100 percent of political risks or 95 percent of each risk. This policy insures short-term sales with repayment terms generally up to 180 days. Coverage applies to the gross invoice amount and, in some cases, to the buyer's interest obligation for a limited time at FCIA-specified rates. This policy does contain a deductible feature. Export credit sales of some agricultural commodities may be insured under this policy with terms extended to 1 year (if needed), and with commercial coverage increased to 98 percent.

(3) ***New-to-export*** policy-Designed for firms just beginning to export, a new-to-export policy offers enhanced commercial risk protection for the first 2 years, which includes 95 percent commercial coverage, 100 percent political coverage, and no deductible. To be eligible for this policy, a cooperative must not have had direct FCIA coverage for 2 years preceding the date of application.

Cooperatives seeking more information about FCIA policies may contact the FCIA at their central headquarters in New York City (telephone: (212) 306-5000). There are also FCIA regional marketing offices located in Chicago, Houston, Los Angeles, Miami, and New York City.

Cooperatives may also reduce the commercial and political credit risks of their export sale transactions by obtaining coverage from the Export Credit Guarantee Program (GSM-102) or the Intermediate Credit Guarantee Program (GSM-103). The intent of these programs, which are both operated by USDA's Commodity Credit Corporation (CCC), is to increase U.S. agricultural exports by stimulating U.S. bank financing of foreign purchases. Payment guarantees are provided to the exporting firm, which may then assign them to a U.S. financial intermediary that finances the export sale.

GSM-102 guarantees are issued for export credit sales with terms of 6 months to 3 years. GSM-103, a more recent and smaller program, offers guarantees for export credit sales with terms of 3 to 10 years. For a transaction to be eligible for program coverage, the foreign buyer's bank must issue an irrevocable letter of credit in favor of the exporter covering the U.S. port value (FOB value) of the shipment. In general, the programs cover 98 percent of the U.S. port value of the shipment and a certain amount of the interest.

CCC will consider offering program guarantees to any export credit sale of U.S. agricultural goods that furthers its longrun market development objectives. Requests for program coverage are considered on a case-by-case basis.

For more details on these credit guarantee programs, contact the General Sales Manager, Export Credits, Foreign Agricultural Service (telephone: (202) 447-3224).

Foreign Exchange Risk

In all export transactions, foreign currencies must be exchanged, normally through commercial banks. There is always the risk that the relative value between the dollar and the importer's currency could change between the time that the sale is made and the payment is received. If the exporting cooperative is accepting payment in a foreign currency, it is assuming the risk that the relative value of the dollar could fall against that of the importer's currency, thus causing a financial loss for the cooperative. There is also the chance that the relative value of the dollar could rise against that of the importer's currency, in which case the cooperative would reap a financial gain. Most cooperatives, however, are not interested in speculating on foreign exchange fluctuations and would prefer to avoid such risks.

One way of avoiding this foreign exchange risk is to quote prices and require payment in dollars. This is the method that has been traditionally used by cooperative exporters. This method requires the importer to make the currency exchange and to face the risks that go with it. It may improve the competitive position of the cooperative, however, to be able to make export sales in foreign currencies. Many foreign suppliers and large trading companies that are competing with cooperatives routinely accept foreign currencies.

If the importer wishes to make payment in a foreign currency, then the cooperative should consult an international banker before negotiating the sales contract. The bank can give advice on the foreign exchange risks that exist for a specific currency.

In addition, most international banking departments can help a cooperative exporter hedge against foreign exchange risk by agreeing to purchase the foreign currency at a fixed dollar price, regardless of the exchange rate at the time. When this type of hedging is done, the bank assumes the foreign exchange risks in return for a fee or discount on the transaction. The cost of these bank services should be included in the price quotation.

Buyer Relations and Feedback

It is often necessary for the exporting firm to go beyond secondary sources when seeking information that is critical to its position in foreign markets. Sales figures may accurately reflect how well the firm is doing today, but they are not always good indicators of future sales, changing market conditions, customer needs, or untapped market opportunities.

Sources for this kind of information include agents or distributors located in foreign markets; the firm's sales staff, who may periodically visit foreign markets: or an export management or trading company. In addition, the exporting firm may benefit from sending high-level executives to visit foreign markets.

Such firsthand visits offer several potential advantages. It is important for those making decisions about export sales and strategy to get a flavor of foreign markets. Such visits may shed light on how the products are being received, what the competition is doing, and other foreign marketing details. Complaints or problems that might not show up in a report or message may come out over lunch. A FAX message or an occasional visit by a subordinate employee may not convince foreign contacts of the seriousness of the co-op exporter's intentions.

Executives or staff who travel to foreign markets should acquire, through reading or training, a basic knowledge of the business culture, management attitudes, business methods, and consumer habits of the importing country.

There is no substitute for a good working relationship with foreign buyers. A co-op's foreign sales agent frequently plays a central role by staying in contact with foreign buyers and dealing with any of their complaints.

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U.S. Department of Agriculture, Foreign Agricultural Service, Food and Agricultural Export Directory 1990, Miscellaneous Publication No. 1481, Washington, DC, August 1990.

U.S. Department of Agriculture, Office of Transportation, Export Handbook for U.S. Agricultural Products, Agricultural Handbook No. 593, Washington, DC, March 1985.

APPENDIX: ACS INTERNATIONAL TRADE PROGRAM (ITP) PUBLICATIONS

1. ***Agricultural Exports by Cooperatives,*** 1985. ACS Research Report 66, Tracey L. Kennedy and Arvin R. Bunker, 1987. (13 pp.)

Cooperatives exporting agricultural products are described in terms of number, value of exports by commodity and destination, and share of U.S. agricultural exports.

Price: Domestic-$1.25; foreign-$1.50

2. ***Directory of U.S. Agricultural Cooperative Exporters.*** Service Report 21, ITP Group, 1989. (33 pp.)

Lists U.S. agricultural cooperatives that export, or have the capability of exporting, commodities to other countries. One section is indexed by type of product. The other section lists the cooperatives in alphabetical order, including complete address, individual contact, communication numbers, and the commodities available for export.

Price: Domestic-$2.00; foreign-$2.50

3. ***Export Market Development by Agricultural Commodity Development Programs.*** ACS Research Report 79, Karen J. Spatz, 1989. (30 pp.)

This report describes how farmers' products are promoted in international trade, who does the promoting, and at what costs. The report discusses promotion programs carried out by government and private industry groups.

Price: Domestic-$2.00; foreign-$2.50

4. ***Grain Exporting Economies: Port Elevator Cost Simulations.*** ACS Research Report 56, Magid A. Dagher. Bruce J. Reynolds, and Lynn W. Robbins, 1986. (24 pp.)

Significant economies of size are often attributed to grain exporting, but until recently empirical estimation had been lacking. An economic-engineering technique is used to simulate cost curves for port elevators over a range of capacities for both shortrun and longrun costs.

Price: Domestic-$1.25; foreign-$1.50

5. ***Imports by Cooperatives, 1986.*** ACS Research Report 74, Karen J. Spatz, 1988. (7 pp.)
Activities of 28 cooperatives are reported in terms of import values by origin, commodity, and shares. Commodity reviews cover fruits and vegetables and farm supplies.

Price: Domestic-$1.25; foreign-$1.50

6. Marketing High-Value Food Products in the Asian Pacific. **ACS Research Report** *85,* **Bruce J. Reynolds, Steven C. Schmidt, and Alan J. Malter, 1990. (28 pp.)**

Export marketing of branded and nonperishable food products is examined for several Asian Pacific countries.

Price: Domestic-$2.50; foreign-$3.00

7. *Using Export Companies to Expand Cooperatives' Foreign Sales.* **ACS Research Report 52, Arvin R. Bunker and Tracy L. Kennedy, 1985. (17 pp.)**

Discussion of export management companies covers services and products handled: market coverage: fees, margins, and costs: ownership and financial structure; and advantages and disadvantages.

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