EXPORT MARKETING GUIDE FOR COOPERATIVES

U.S. Department
of Agriculture

Farmer Cooperative
Service

Marketing Research
Report 1 0 7 4

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Cover

Ship owned by Zenkoren, the Japanese importing cooperative, arriving at the Port of Corpus Christi, Texas, to take on a load of milo from the Producers Grain Corporation.

FOREWORD

For more than half a century Congress and the U.S. Department of Agriculture have recognized the need for a research and service program specifically tailored to the needs of farmers who have joined to form cooperatives. That program, now conducted by the Farmer Cooperative Service (FCS), has assisted farmers to sell commodities they produce and to purchase goods and services at cost.

The specialized FCS program historically has focused on domestic marketing, purchasing, and services. Much attention has been given to specific areas unique to cooperatives, such as business organization, finance, and member education. Because cooperatives do not operate in an economic vacuum, attention also has been given to their domestic marketing and purchasing opportunities and problems that are much like those that exist for other forms of business.

In recognition of the tremendous importance of export markets to farmers and to our entire economy, FCS is giving increased attention to the development of effective export marketing programs by cooperatives. Our research and technical assistance studies will broaden the informational base of cooperative decisionmakers

Randall E. Torgerson
Administrator

Farmer Cooperative Service

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HIGHLIGHTS

Agricultural exports from the United States exceed agricultural imports by about $12 billion annually. This favorable balance in agricultural trade means many thousands of jobs in industry, higher net incomes for farmers, and better living for most Americans.

Farmer cooperatives play an important role in the export marketing of many agricultural commodities. They are relatively unimportant for others.

The basic objective of this report is to provide technical information that will assist additional farmer cooperative leaders to gain the understanding and expertise needed to export successfully.

Many agencies and firms can be of advisory help to cooperative directors and key staff personnel who wish to develop or improve an export marketing program. Foreign Agricultural Service, U.S. Department of Agriculture, has a comprehensive program. Other governmental agencies also have programs of value to exporting cooperatives. Private institutions, including commercial banks with international departments, can be very helpful.

In direct exporting, a cooperative deals directly with one of several kinds of foreign buyers or their foreign-based agents. Cooperatives exporting citrus, for example, customarily make direct export sales.

In indirect exporting, a cooperative works through one of several kinds of intermediaries, either an American firm or a U.S.-based agent of a foreign buyer. Someone other than the cooperative handles the negotiations and export arrangements with the foreign buyer. Cooperatives marketing soybeans, for example, usually make indirect export sales.

Export market research is the collection and analysis of factual information about the effective demand for a selected commodity in a foreign geographic area. It involves careful consideration of a designated market's supply-demand situation, sales outlets, and local customs and practices. The research reaches its climax in a study to determine whether it is feasible for a cooperative to (1) enter into export marketing, or (2) export its commodity to a selected foreign market.

Key representatives of an exporting cooperative should visit several selected foreign markets to gain a deeper insight into the nature of each market and the economic, political, and social forces at work within it. Personal contacts with buyers promote understanding and meaningful communication.

Each buyer is interested in product, price, performance, and profit. In most instances, a cooperative must accept and comply with a buyer's preferences with respect to such things as product specifications, packaging, and shipping.

A cooperative with continuing sales to a selected foreign market usually will have a foreign sales representative or agent. Such a representative is a foreign individual or firm who is granted essentially the same authority as a salesman employed by the cooperative. Some of the foreign sales representatives can provide many useful services, due in large part to their proximity to buyers.

A number of business techniques are peculiar to the export trade or vary significantly from those common to the domestic trade. Those with which cooperative executives and directors should be familiar pertain to delivery terms of sale, pricing, sales offers and contracts, receiving payment, financing, shipping, and documenting.

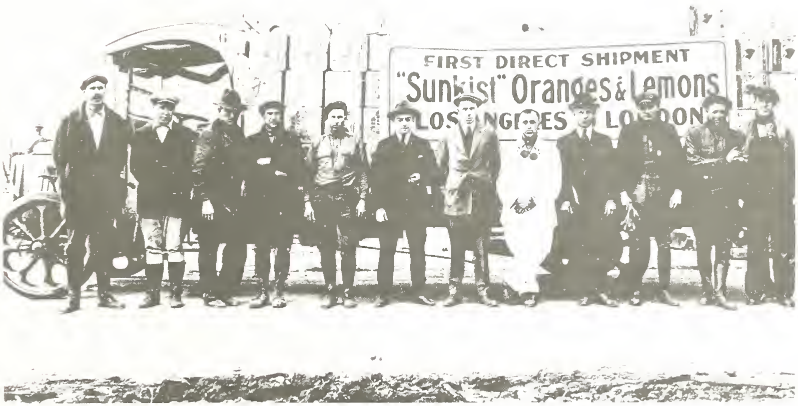
Exporting is more than a simple extension of domestic marketing, but there is no export technique that cannot be mastered by cooperatives.

Twenty elements of success are listed herein that decisionmakers and staffs of all exporting cooperatives can put together to achieve progress. Another five elements are of special concern to cooperatives exporting food products.

There also are a number of specific opportunities—such as for reduced transportation costs—that an individual cooperative has for expanding or improving its export marketing program during the next decade.

For groups of cooperatives with export problems in common, joint action provides a way to obtain the volume necessary for maximum efficiency in exporting. Development of specialized export cooperatives appears to be an alternative with exceptional promise.

It is in the best interest of American farmers, and the public generally, for more farmer cooperatives to engage in export marketing in efficient and successful ways.



Many persons think of cooperative exporting as a recent development. Here is evidence of a shipment of fresh citrus made to England by Sunkist Growers, Inc., prior to World War I.

Rice and soybean products are lifted aboard freighters at New Orleans for shipment by Riceland Foods, Stuttgart, Ark., to overseas markets.

EXPORT MARKETING GUIDE FOR COOPERATIVES

Donald E. Hirsch
Senior Agricultural Economist—Foreign Trade

INTRODUCTION

Farmers and their cooperatives are confronted by the challenge of export marketing in greater measure than ever before. As business enterprises that are wholly owned and controlled by American farmers, cooperatives that meet the challenge have an opportunity to contribute materially to our country's economic growth and stability.

The United States exports far larger quantities of agricultural commodities than most countries produce. We are the world's largest exporter of many foods and feeds. The value of our agricultural exports in the 12-month period ended June 30, 1976, was $22.1 billion. With agricultural imports valued at $10.1 billion, this meant our agricultural exports exceeded our imports by $12 billion.

The favorable balance in agricultural trade means many thousands of jobs in industry—and better living in America. It helps to pay for imported industrial commodities, including needed supplies of costly petroleum products. Our entire economy benefits from a high level of exports of the foods, feeds, and fibers produced by American farmers.

About 30 percent of our agricultural production is exported. In the 12-month period ending June 30, 1976, the percentages of production moved into export channels were as follows: dry edible peas—61, almonds—56, wheat—55, soybeans—51, cotton—40, tobacco—30, rice—27, and feed grains—25. Farmer cooperatives participated in exporting these and many other agricultural commodities, but in most instances were more significant factors in domestic marketing than in exporting.

Many farmers are directly dependent on export sales for a large share of their income. Other farmers are affected indirectly but significantly by a large volume of exports. If our export markets shrank sharply, much of the resources used to produce export crops would be shifted to production of other commodities. The results would be surplus quantities and low prices for nearly all crops.

Farmers may work through general farm organizations and commodity organizations to improve the economic and political environments for international trade. They can directly participate in the trade through their cooperatives. Unorganized farmers are merely spectators.

Participation in international trade does not supply a simple answer to the income problems of members of cooperatives, of course. It is not easy to develop and maintain a successful export program.

Some farmer cooperatives now have effective export marketing programs. If more cooperatives engage in exporting on an efficient and business-like basis, both producers and consumers will benefit.

This report is an export marketing guide, not a complete export manual or a blueprint for operations of any individual cooperative. Its basic objective is to help additional farmer cooperative leaders to gain the understanding and expertise needed to export successfully. It provides information designed to assist directors and administrative personnel of each cooperative with export potential to (1) evaluate the opportunities and problems involved in establishing a new or expanded export program, and (2) increase their proficiency in export marketing.

The illustrations herein are planning aids developed by the author, rather than standard businesss forms or documents customarily used in the trade. The latter are available from other sources.

As a reference tool or work aid for cooperatives, this report is not intended for use in resolving a misunderstanding or dispute should one arise between parties involved in a particular export transaction.

IMPLICATIONS FOR COOPERATIVES

Farmer cooperatives are an integral part of our capitalistic enterprise system. Sound business decisions, whether in domestic or export operations, are essential not only to their progress but also to their very existence.

Cooperatives differ significantly from other firms. They are established to provide joint services at cost to farmers in organized groups, they are controlled by those farmers, and their net margins (if any) are allocated to farmers on a patronage basis.

A few international trading firms—which are not cooperatives—play a major role in exporting U.S. agricultural commodities, notably soybeans and grains. Whether ownership and control are in the hands of many persons or of few, the basic objective of these firms is to make maximum returns to investors rather than to growers. This objective is neither illegal nor unethical. The result is that these firms seek to maximize their profits by obtaining agricultural commodities from those countries in which they can be produced in acceptable condition and at least cost.

In sharp contrast, a farmer cooperative that gains a share of a foreign market through sale and delivery of agricultural commodities produced in the United States will continue to offer U.S. commodities exclusively. This increases chances for U.S. farmers to hold or increase their shares of total imports of those commodities by foreign countries.

The competitive position of a cooperative is strengthened by its more nearly assured sources of commodity supplies, if it has marketing contracts with individual farmers and a competing firm does not have similar contracts. However, greater dispersion of control within a cooperative sometimes may mean that a competitor will need less time to make a major business decision that requires prompt action.

Ownership and control in the hands of farmer-patrons can provide a basis for loyal and continuing support by farmers that cannot be matched by a firm that is owned and controlled by persons whose only interest is the size of the monetary return on their investment. Such support is not created automatically by adoption of the cooperative form of business structure, however. Strong farmer leadership and continuing member information programs are necessary.

The need for membership understanding and support is as great for an export marketing program as for a domestic marketing program. All the same informational media—cooperative periodical publications; annual reports; membership meetings; and informational releases through the public press, radio and television—should be utilized.

There is a special glamor to a shipment to a foreign country. Many farmers like to know that their cooperative is sending their commodities to other parts of the world. Although it is no substitute for practical business operations, the "glamor factor" should not be ignored as a means for stimulating member interest and support for successful export sales.

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

Members should be involved in decisionmaking, but international trade is highly competitive and tends to be more secretive than the domestic trade. Premature disclosure of specific market objectives, names of buyers, or exact sale terms may be more helpful to competitors than to a cooperative'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. More delegation of authority to the top administrative employee may be needed than in a domestic marketing program, however. In turn, he may delegate considerable authority to other employees. The reason for this lies in the nature of the business; relatively few persons have the knowledge and experience to deal with technical problems involved in exporting.

The need for effective management increases when a domestically oriented cooperative prepares to launch an export marketing program. A review of the cooperative's management in terms of the basic principles, role, functions, structure, staffing, and techniques should be made at that time—and periodically thereafter.[1]

Farmer cooperatives are a significant factor in international trade. Yet for many commodities their role in export marketing is less important than the part they play in domestic marketing.

Data on cooperative exports are not compiled on a regular basis. The scope, depth, and significance of cooperative ventures in international trade during their fiscal years 1968, 1969, and 1970 have been documented.[2]

In fiscal year 1970, the last period for which cooperative export data are available, 5,415 farmer cooperatives in the United States marketed agricultural commodities. Only 56 of those associations—about 1 out of each 100—sold such commodities directly to foreign buyers. Another 21 associations shipped commodities to foreign destinations as a result of sales to persons other than foreign buyers.[3] Many other associations simply sold commodities to other firms to export.

Farmer cooperatives handle large shares of U.S. exports of almonds, walnuts, pecans, peanuts, fresh and processed citrus, raisins, cranberries, canned fruits, grape products, edible beans, rice, poultry meat, grass seed and cotton. The proportions of total grain and soybean exports handled by cooperatives are relatively low, but the cooperative volumes still are huge by almost any other standard.

These are some of the cooperative names that have become well-known in international trade: Sunkist (citrus), Riceland (rice), Farmers Export (soybeans, corn), Blue Diamond (almonds), Agripac (processed vegetables), Producers Grain (sorghum grain), Diamond-Sunsweet (walnuts, prunes), Amcot (cotton), Welch Foods (grape products), Gold Kist (poultry, pecans), Tri/Valley (processed fruits), Norbest (turkeys), Sun-Maid (raisins), and Rockingham (poultry).

Conversations with managerial personnel suggest that these may be some of the major reasons most cooperatives do not export:

1. Either the cooperative has too little volume to meet the requirements of foreign buyers, or inquiries from foreign buyers involve quantities that are too small to justify incurring the additional expense and time involved in a foreign sale.

2. The cooperative does not have on its staff the experience and expertise necessary to process foreign sales and believes that such experience and expertise are not readily available from "outside" sources on a temporary basis.

3. The risks involved in export sales are considered to be disproportionately large and it is felt that they cannot be readily identified or measured.

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[1]For a comprehensive discussion of management of cooperatives, see Manuel, Milton L. Improving Management of Farmer Cooperatives. Farmer Cooperative Service, U.S.Dept. of Agriculture, General Report 120, 47 pp. Sept. 1973.

[2]Bradford, Henry W. and Berberich, Richard S. Foreign Trade of Cooperatives. Farmer Cooperative Service, U.S. Dept. of Agriculture, FCS Information 88, 38 pp., Feb. 1973.

[3]Ibid. See page 5.

4. A loss from an export sale could be of much greater interest and concern to the board of directors and members in general than a loss from a domestic sale, particularly during the early stages of development of an export sales program. This could mean that a widely known loss on an export sale would jeopardize the continued employment of top administrative people.

5. There are additional problems in exporting that do not exist in domestic marketing and are not peculiar to cooperatives. For example, U.S. dock strikes and embargoes on export shipments can greatly disrupt an export program. There are also many foreign trade barriers, some of which may become effective almost overnight; included are tariffs, nontariff barriers, import quotas, import duties and levies, and preferential import treatment accorded to commodities shipped from countries competing with the United States in foreign markets.

No attempt will be made in this report to indicate to what extent these and other reasons may have had a negative influence on cooperative participation in export marketing. Instead, information will be provided that will assist in making positive decisions in the future. There is little that an individual cooperative can do about a problem such as that arising from a foreign trade barrier, but most export problems can be solved, either through individual action or joint action with other cooperatives.

TECHNICAL ASSISTANCE[4]

A farmer cooperative that markets a commodity with export potential, and is interested in exploring export opportunities, can obtain the advisory help of many persons. Some of these persons are informed about the broad aspects of export marketing, while others are familiar with the "ins and outs" of the export business.

A relatively small cooperative may need a great deal of technical assistance, but even the largest cooperative cannot afford to ignore the services that are available from public agencies and private firms.

The initial problem for a cooperative or individual with little or no experience in exporting is to find out what information is available from which sources. Later, the problem becomes one of selecting the publications that provide needed information on a regular or irregular basis, and of maintaining contacts with individuals, governmental agencies, and private firms that on request can provide advisory assistance tailored to the needs of the cooperative.

Foreign Agricultural Service

Foreign Agricultural Service (FAS) is the agency that has primary responsibility within the U.S. Department of Agriculture (USDA) in the subject areas of international trade, foreign market development and foreign affairs involving agricultural commodities. It can assist farmer cooperatives and other agricultural exporters in many ways. Brief descriptions of some FAS activities are given here to alert cooperative managements to the kinds of services provided.

Agricultural attaches. Each attache assembles information on the production and utilization of agricultural commodities, and on governmental policies and programs related to agriculture, in the country (or countries) to which he is assigned.

He also supervises U.S. market development activities in the country, and assembles information about marketing opportunities and competition for U.S. agricultural commodities. He often helps U.S. exporters get in touch with foreign businessmen and

[4]Brief descriptions of selected USDA programs are given here and in a subsequent section dealing with "Financing." In some instances, the descriptions were based on published material. In all cases, they were reviewed in draft form by representatives of the several agencies. Constructive suggestions were received and included herein.

governmental officials; this service is particularly helpful to a cooperative when it is attempting to establish or expand an export sales program. However, most requests for trade information should be directed to the Export Trade Services Division of FAS in Washington, D.C.

We have attaches stationed in more than 50 countries. Since some of them function in two or more countries, they cover more than 100 countries in all.

Trade Opportunity Referral Service (TORS). Thousands of foreign buyers, located in many countries, inform our agricultural attaches about the foods, feeds, and natural fibers they would like to purchase from U.S. sellers. Pertinent information is disseminated to interested U.S. firms through a computerized direct mail service and a weekly trade bulletin called "Export Briefs." Sufficient information is provided to enable a U.S. cooperative to select foreign firms for further consideration as buyers or agents.

In addition to having an opportunity to respond to specific trade inquiries, American exporters can use commodity listings of foreign buyers for direct mail advertising.

New product testing. A new product testing program may be used to help locate foreign markets for U.S. food products. The U.S. agricultural attache will use the product label to check with foreign governmental officials to make certain the product can be cleared for import.

A second step may be taken by a cooperative offering a product that has met the entry requirements. A taste-test is held to determine whether the product is acceptable to foreign consumers. Test results and information about competing products are provided to the U.S. firm.

Test marketing and point-of-purchase promotions. A food product that meets entry requirements and has passed consumer taste-tests is qualified for test marketing. Usually this involves a "point-of-purchase" promotion program in selected retail stores. After a test period of a week or more, an inventory is taken to determine how much of the product has been sold.

In addition to these programs, there also are special market development export incentive programs for fruits, vegetables, and nuts. In early 1976, six cooperatives were among 15 firms involved in the incentive programs.

Trade exhibits. Trade fair exhibits are a well established means of introducing and promoting food products overseas. 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 use of facilities and other services. There must be full-time representation at most kinds of exhibits.

The principal kinds of trade exhibits are hotel-restaurant-institutional exhibits or demonstrations, international food shows, agent food exhibits, catalog shows, product displays managed by agricultural attaches, and livestock shows.

Sales teams. Personal visits with foreign buyers may be arranged through a sales team program. Such a program is based on market research that has indicated that certain U.S. food products have export potential in a selected market or markets. FAS selects five or six U.S. firms to participate in a sales mission to call on prospective buyers. The participants pay their own transportation and living expenses and a modest fee.

Publications. FAS researchers provide to cooperatives and other exporters a wealth of useful information about the international trade environment.

FAS publishes three periodicals which every cooperative exporter should receive regularly. One is "Foreign Agriculture." This is a weekly magazine that provides a great deal of information that is useful to U.S. exporters.

"Export Briefs" is a weekly letter listing specific trade opportunities for many agricultural commodities. It also reports on foreign trade developments.

The third periodical is the "Export Directory." This is an annual publication

Several cooperatives have received national recognition for their accomplishments in exporting. Here the E Star Export flag—which is granted for additional export achievements to firms that have already received the Presidential E Award—flies in front of the offices of Gold Kist Inc., Atlanta, Ga. In the foreground are W. C. Pulliam, Senior Vice President, and G. A. Burson, Executive Vice President.

listing key contacts in State and Federal governments and in the trade. The most recent issue (May 1976) consists of 102 pages and provides the names, mail addresses, and telephone numbers of hundreds of individuals.

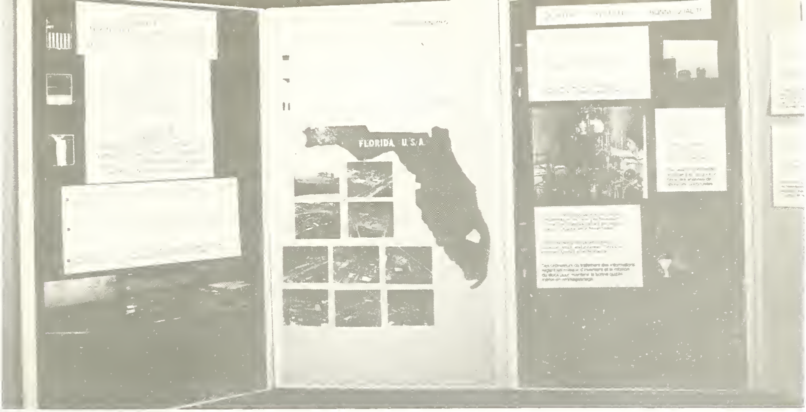
FAS also publishes numerous reports that are largely statistical. "Foreign Agricultural Circulars" are specialized reports on production and trade in 23 major commodity groups and are published at irregular intervals during each year. Cooperative exporters can find in these reports a good deal of useful information about the commodities they handle. Further commodity and policy information is in "Special Reports" issued on an irregular basis.

Staff. Perhaps the greatest asset of FAS is its staff of experienced specialists. A cooperative can find someone on that staff—or the staff of its sister agency, the Office of the General Sales Manager—to discuss export marketing opportunities and problems for any one of the whole range of commodities, from alfalfa seeds to zucchini squash.

Exporting cooperatives have opportunities to be of advisory assistance to FAS. During the current round of multinational trade negotiations, for example, some cooperatives are represented on technical advisory committees concerned with major commodity groups. Further, at any time cooperative spokesmen can advise FAS about problems arising in the environment for international trade. They can provide factual information, based on their own experiences, that may lead to government-to-government discussions directed toward maintaining or increasing access by cooperatives (and other exporters) to foreign markets.

Other Sources

Additional sources of information and technical assistance will be discussed under the headings of U.S. Department of Agriculture, U.S. Department of Commerce, and Miscellaneous.



One way to get acquainted in an overseas market, or to attract new customers, is to participate in an international trade show. This attractive exhibit was used by Citrus Central, Inc., of Orlando, Fla., in a world food fair in Cologne, Germany. Pertinent information about the cooperative's processing facilities was given in French and German as well as English.

U.S. Department of Agriculture

In addition to the Foreign Agricultural Service, several other agencies in the U.S. Department of Agriculture can be of technical assistance to exporting cooperatives. Six of those agencies will be mentioned here.

Farmer Cooperative Service (FCS) concentrates on the problems and opportunities of farmer cooperatives. It can make research studies directed toward comprehensive analyses of the export opportunities of commodity groups of cooperatives or the technical aspects of their export operations. It also, at request, can undertake technical assistance studies designed to help individual cooperatives, or groups of cooperatives, to develop new export programs or improve existing programs.

In June 1975, a new research project was initiated by FCS. It is concerned with export marketing. Its objectives are to (1) assist those U.S. farmer cooperatives that are interested in developing or expanding foreign markets for agricultural commodities to acquire the specialized knowledge and skills that will enable them to operate efficiently and effectively, and thereby be of maximum service to their producer-patrons, (2) develop technical materials and guidelines that may be used as working tools by exporting cooperatives, and (3) develop a body of knowledge that will help the cooperatives to develop marketing procedures and strategies to meet both day-to-day and long-range problems and opportunities.[5]

FCS also conducts research concerned with improving the organizational structure and operations of cooperatives in general. These studies are of value to exporting cooperatives as well as associations serving domestic markets only. Several publications are listed at the end of this report.

In addition to various research and informational reports, FCS publishes a monthly periodical, *Farmer Cooperatives*. Each issue of that magazine contains articles of interest to cooperative managements and members.

[5]This report is the second publication (in addition to four articles, three in the FCS magazine, *Farmer Cooperatives*) to be issued under this project. The first was: Hirsch, Donald E. Export Techniques of Grain Cooperatives. Farmer Cooperative Service, U.S. Dept. of Agriculture, FCS Information 104, 44 pp. November 1976.

Economic Research Service (ERS) of USDA issues publications of interest to exporting cooperatives. Its Foreign Demand and Competition Division studies international trade in agricultural commodities, trade policies and trade barriers. Supply and demand conditions, including weather developments affecting production, are reviewed on a continuing basis, and reported in June, September and December in "The World Agricultural Situation." Special attention is given to conditions affecting foreign market opportunities for the major U.S. export crops.

Of special interest is a monthly statistical and analytical review called, "Foreign Agricultural Trade of the United States." Each exporting cooperative should receive this publication regularly to keep abreast of basic trends and developments in international trade.

Also of interest are ERS periodicals and special reports concerned with projections of agricultural production and trade, the agricultural situation in the world's major regions, commodity situations, and world economic and monetary conditions.

Animal and Plant Health Inspection Service (APHIS) of USDA inspects all livestock exported from this country, and certifies that they meet the health requirements of each foreign country of import. Export health certificates must be endorsed by APHIS veterinarians before livestock can be shipped to a foreign destination. Similarly, APHIS inspects export shipments of fresh fruits and vegetables and issues phytosanitary certificates to certify that they are free from various diseases. APHIS can help a cooperative exporter learn in advance what inspection regulations affect exports of its commodities.

Agricultural Marketing Service (AMS) of USDA is involved in inspection and grading of grain, dairy products, fresh and processed fruits and vegetables, red meats, cotton, tobacco, and poultry products, including eggs. Unlike APHIS, which inspects for wholesomeness, AMS is primarily concerned with determining levels of quality. Official grade standards have been developed by AMS for 390 food and farm products. Export terms of sale often include provision for a grade certificate.

For the most part, grading and inspection programs made available throug AMS are offered on a voluntary, fee-for-service basis. Inspection and grading, however, are mandatory for commodities cited in the Export Apple and Pear Act, the Export Grape and Plum Act, and the export provisions of the U.S. Grain Standards Act.

Aside from administering grading and inspection services, AMS offers contract compliance and other acceptance services. For certain products, such as red meats, AMS has drawn up purchase specifications that can be used by institutional buyers, both domestic and foreign.

Agricultural Research Service (ARS) of USDA has two employees stationed in Rotterdam, Netherlands, to study the condition of various commodities at the time of their arrival overseas, and to seek possible improvements in transocean shipping and handling at the overseas port. It also publishes reports dealing with various aspects of the exporting of agricultural commodities.

Extension Service (ES) of USDA works closely with the State Extension Services. Many of the latter assist agriculturally-related businesses to understand export marketing. Educational programs cover analysis of potential foreign markets for sales of specific products, export financing, transportation, documentation, and sources of specific assistance. This educational information is provided through conferences, seminars and workshops conducted by Extension specialists as well as through individual contacts.

Other Extension programs related to foreign trade provide marketing and outlook information, including reports on changes in export demand for principal commodities as well as changing conditions in competing countries and price and supply implications to producers.

For specific information related to these programs, inquiries should be directed to the Director of the Cooperative Extension Service at the appropriate land-grant university.

U.S. Department of Commerce

U.S. Department of Commerce (USDC) can be of considerable assistance to an exporting cooperative in three major ways: through publications issued from the national headquarters in Washington, advisory assistance from staffworkers at district offices located strategically around the country, and informational and advisory assistance from commercial attaches stationed in foreign countries.

USDC's Bureau of International Commerce issues scores of publications annually that are of interest to exporting firms. One series—"Overseas Business Reports" —provides background information on the economic and trading situations of individual countries.

Another country-by-country series—"Foreign Economic Trends and Their Implications for the United States"—provides information on general business and economic conditions.

The Bureau also receives and releases monthly more than 300 "Foreign Market Reports" that deal with markets of interest to specific segments of U.S. business, including agriculture. Copies of these reports are available at individual request.

Through its "Export Mailing List Service," USDC will supply lists of foreign firms in selected countries that handle specified commodity groups. There is a small fee for this service, but it is a good way to obtain basic information about each of many firms.

From such a list, a cooperative can select individual firms that appear to be prospective buyers or sales representatives. It then can request a "World Traders Data Report" for each of a few selected firms. There is a fee for each of these reports but information is provided on the type of organization, year established, relative size, number of employees, general reputation, territory covered, language preferred, product lines handled, principal owners, financial references, and trade references. This is a valuable service at very low cost.

"Commerce America" is a news magazine published biweekly by USDC. Many of the articles are concerned with the market environments in individual foreign countries. These are likely to be of greater interest to administrative and marketing research personnel than to technical employees or directors of U.S. cooperatives. There are some specific items pertaining to agricultural opportunities, however. For example, an item in early 1976 concerned interest on the part of a French firm in developing a joint venture for processing and canning sweet corn.

A sales lead in the magazine will provide the name and address of the foreign firm, indicate whether it desires direct purchases or to act as the seller's agent, and list the commodities in which the foreign firm is interested.

The Bureau of Census, USDC, compiles a great deal of data pertaining to exports of U.S. industrial and agricultural commodities. In most instances, cooperatives will find it desirable to wait for the special summaries and comments prepared by agencies of the U.S. Department of Agriculture. However, in some instances needed data can be obtained more quickly from Census reports, particularly the monthly "Foreign Trade Report FT 410 U.S. Exports Commodity by Country."

Further, if information of a specific kind is contained in records of the USDC but not published by USDA, it may be possible to arrange for preparation of a summary through a district office of USDC.[6]

Miscellaneous

Many other governmental and private sources provide advisory assistance. Included are the following: Export-Import Bank of the United States, commercial banks with international departments, regional banks for cooperatives, international credit rating companies, the national and local chambers of commerce, commodity trade associations—especially those designated as "export development coordinators" by the Foreign Agricultural Service, USDA—regional and international trade councils and associations, land-grant university research and extension departments, port authorities, State market development agencies, State departments of agriculture, and air and ocean shipping lines.

Potential foreign customers are a prime source of information about product and labeling specifications and other import requirements in specific foreign markets.

In addition to checking the credit references of a potential buyer, it is desirable to talk with as many informed persons as possible to determine the foreign firm's reputation *in the trade*. How is it rated by other businessmen with respect to integrity, promptness in making payments, import expertise, sales outlets, and general dependability?

International freight forwarding agents—usually referred to as "foreign freight forwarders"—not only can handle export shipments but also can provide a great deal of advice on the technical aspects of moving commodities in international trade. (Such firms are discussed later in the section on "Forwarding" under "Export Business Techniques.")

Some private firms, headquartered in the United States or a foreign country, engage in overseas market research on a fee basis. A competent researcher employed by such a firm should have extensive foreign contacts and previous experience. This will enable him to do a thorough job in a minimum period of time.

Dun & Bradstreet Publications, Inc., annually publishes an "Exporter's Encyclopedia." Supplemented by bulletins and newsletters, this is a source of a great deal of current information about technical aspects of sales and shipments to each of many foreign countries.

Cooperatives compete strongly with each other, as well as other corporations, in foreign markets as well as in domestic markets. Nevertheless, cooperatives with established export programs are a key source of advisory assistance for cooperatives entering into the export business. In keeping with the time-honored tradition of helping each other in time of need, farmers in cooperatives like to share with other farmers much of the knowledge gained through dealing with export problems and opportunities. Thus the farmer leaders and administrative employees of successful exporting cooperatives are an invaluable source of advice and information for those persons interested in developing new cooperative export programs.

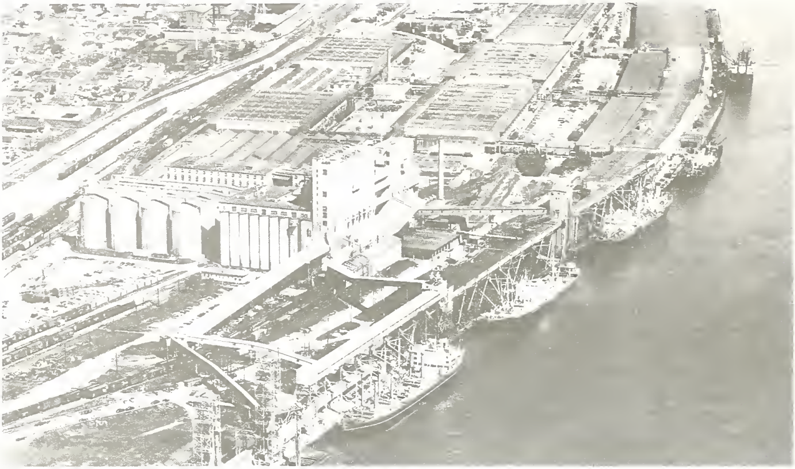
SALES AND DISTRIBUTION CHANNELS

A "foreign market" is a geographic area outside the United States in which there is a group of importers who are interested in purchasing U.S. commodities to sell to other distributors or to users. There also are agents, here and abroad, who will sell a

[6]For example, USDC has data showing the volume and value of livestock exports from each U.S. port of exit. This information is not published because the demand from industry is too small to justify the expense. If a very large livestock exporting cooperative were developed, it might find it worthwhile to pay to have such data compiled occasionally.

Cartons of fresh lemons on their way to Tokyo from the facilities of Sunkist Growers, Inc.

Sunkist Growers, Inc., has consumer advertising programs in many nations. Campaigns are coordinated by an international advertising manager, but each is distinct with creative work done by local agencies. Here a Dutch boy greets a poster with a smile.



Riceland Foods' cannery in New Orleans is ideally located for receiving, canning, and shipping soybean oil to export markets.

Poultry products on sale in a Japanese store. They were supplied by Rockingham Poultry Marketing Cooperative, Inc., Broadway, Va.

cooperative's products to foreign buyers for a commission. Other agents will arrange for a purchase of the commodity from a cooperative with the commissions to be paid by foreign buyers.

Each buyer or agent in the foreign market can be called a "sales outlet."

There appear to be two concepts with respect to use of the term "distribution channel." Under the first, emphasis is placed on the kind of firm with which a cooperative deals, whether that firm is in this country or a foreign country. These classifications—such as export merchant or foreign sales representative—are discussed later.

The second concept of a "distribution channel" is concerned with the domestic marketing system in a foreign market. Such a channel consists of a series of buyers, or agents and buyers, through which the control of a commodity passes as the commodity moves from the cooperative to the final user. The commodity not only may be sold and resold, but also transported, stored, processed, packaged, and merchandised before it reaches the ultimate consumer.

The term "export sale" applies to some but not all shipments of U.S. commodities that ultimately arrive at foreign destinations. In the context of cooperative marketing, the term applies to such shipments as follows:

Includes shipments—

1. To U.S. farmer cooperatives that purchase commodities from other farmer cooperatives or help them with export arrangements.

2. To U.S. firms, other than farmer cooperatives, that purchase commodities for export.

3. To foreign firms, foreign governments, or their representatives, that purchase U.S. commodities for import into foreign countries.

Does not include shipments—

1. To the U.S. Armed Forces, or U.S. diplomatic missions abroad, for their use.

2. To the U.S. territorial possessions—Guam, Puerto Rico, and the Virgin Islands.

3. For use as supplies on vessels and planes engaged in international commerce.

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" exporting. In a direct export sale, the cooperative deals directly, through its employees or foreign-based representatives, with a foreign buyer or his foreign-based agent; the commodity is delivered to a point designated by the buyer—a U.S. loading port or a foreign port of destination. In an indirect sale, the cooperative works through an intermediary—either another American firm, a U.S.-based agent of a foreign firm, or an international trading company; the commodity is delivered to a point designated by the buyer—usually a U.S. loading port.

Another way to express the difference is to say that selling direct is to make an export sale, whereas selling indirect is to sell *for* export—with someone else making the export sale.

These distinctions usually are significant. In some cases—as will be illustrated—they are less significant and quite vague. In general, a cooperative exporting directly is building and maintaining foreign markets for its products; a cooperative exporting indirectly is merely helping to supply foreign markets.

Data are not available to show the extent to which U.S. farmer cooperatives use each of the various kinds of export distribution channels. There are differences among the cooperatives according to kind of commodity exported, volume of exports, and market to which exports are made.

Definitions vary according to circumstances in which they are to be used. Those in the next two sections of this report are designed to fit the needs of U.S. cooperative exporters. Since the terms do not have the same meanings to all persons, it always is desirable for an exporting firm to find out precisely what services and facilities a domestic intermediary or foreign importing firm has to offer.

Indirect Sales

If a cooperative is to use an intermediary in exporting—and most of them do—the kind of firm it selects should be the one best suited to its individual needs.

Export agent and export broker. The difference in meaning of these terms is clearly distinguishable when the following concepts are compared:

1. An export agent is a U.S. firm that acts for the cooperative and may have authority to make the same decisions and commitments that would be made by an export salesman employed by the cooperative. The export agent usually works for a commission only, to be paid by the cooperative, but may work for a retainer plus commission. Like a sales employee, he works under the direction of a key administrative employee of the cooperative. However, he may have other clients with noncompetitive commodities. His offices are located in the United States. He does not buy or sell commodities or finance sales.

2. An export broker is a U.S. firm whose main function is to bring buyer and seller together. His staff usually is very small in number—perhaps only one or two persons. His office facilities also are minimal, and are located in the United States, usually at a port. He is not a party to export transactions, although his service may result in sales that otherwise would not have been made. He also may provide some limited advisory assistance to the seller. He receives a commission from the seller for any sale he arranges, and works with all buyers and sellers with whom he can establish contact. He does not buy or sell commodities or finance sales. Thus an export broker is an American firm that acts in concert with both seller and buyer, but his services are so limited—even though they may be important—that he is not classed as an "intermediary." The exporting cooperative has essentially all the sales responsibilities it would have if it dealt directly with the buyer in the absence of an export broker.

In this context it is clear that a sale through an export agent is indirect exporting and a sale involving an export broker is direct exporting. The problem is that the two concepts expressed above do not always prevail in the "real world." The word "agent" often is used to indicate a substantially greater degree of responsibility and involvement in export sales than the word "broker," but many persons in the trade use the words interchangeably.

This is the most precise classification of these terms that is realistically possible under present conditions: An "export agent" always is involved in indirect exporting, whereas an "export broker" may be involved in either indirect or direct exporting, depending on the degree to which the individual firm is responsible for and involved in a given export sale.

Export management company (EMC). This type of firm also is identified by the less descriptive term of Combination Export Manager or CEM. Such a firm 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 cooperative's export department. It may work for a commission, retainer, or retainer plus commission. It will have other domestic clients with noncompetitive commodities. Its offices are located in the United States. It does not buy or sell commodities, but in some instances it may finance sales.

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

Export commission agent. This type of domestic firm represents foreign companies. Acting as 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 agents. Some foreign governments have agents located in this country who serve those governments exclusively and buy various commodities as requested.

International trading companies. An international trading company is a large firm that specializes in purchasing commodities in one country, selling them in another country or countries, and handling all international shipping arrangements. A few very large international trading companies handle most exports of U.S. grain; they also have foreign sources of supplies. All sales to such firms are classified as indirect.

Several huge Japanese trading companies maintain offices in this country and others; they market industrial commodities as well as foods and feeds and—unlike the more generalized trading companies—are primarily concerned with exporting Japanese commodities and importing American and other foreign-source commodities for use in Japan. In a sale in which 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 the word is used herein; such a sale may be classed as a direct sale. In other circumstances, a sale to a Japanese trading company may be termed an indirect sale.

Direct Sales

Anyone who brings a commodity from a foreign country into his country, and who is involved in some way in the commercial purchase of that commodity, may be called an importer. Sometimes the word is limited to those firms that buy foreign goods. Usually, however, the word "importer" is used to include any firm that specializes in the act of importation.

As will be brought out in the following discussion, not all firms involved in direct export sales made by U.S. suppliers are classified as foreign importers.

Export broker. (See previous discussion of "Export agent and export broker" under "Indirect Sales.")

Import broker. An import broker is a foreign importer who brings together a U.S. supplier and a buyer located in his country or some other foreign country. His staff and facilities usually are quite limited; they often are located in or near a port in his country. He is not a party to export transactions, but receives a commission from the buyer.

Import agent. An import agent is an importer in a foreign country who receives a commission from a local buyer to act as his purchasing agent, or who receives a commission from a U.S. seller to act as his sales agent.

Foreign sales representative. The term "foreign sales representative" is used interchangeably with "foreign sales agent." It signifies a special relationship between a U.S. seller and a foreign firm. The foreign sales representative (or agent) is a foreign individual or firm that acts for the cooperative and has authority to make the same decisions and commitments that would be made by an export salesman[7] employed by the cooperative. He works under a contract that specifies the rate of commission, defines the sales territory, and spells out other working arrangements. He usually represents the cooperative on an exclusive basis, but may have other clients with noncompetitive commodities. (Further information on arrangements with a foreign sales representative is given later under a section on "Role of Representative.")

Foreign distributor. This kind of foreign importer puchases a commodity for his "own account," rather than acting as an agent, and then resells it to another buyer or

[7]Sometimes the term "export sales representative" may be preferable to "export salesman," as, for example, at an overseas sales exhibit in a U.S. or international trade show. In either case, the term designates an employee of the cooperative. It is desirable to restrict use of the term "foreign sales representative" to a foreign individual or firm.

buyers further along in the distribution channels. Sometimes the word "importer" is used in connection with this kind of firm and no other.

Foreign retailer or retailer association. A foreign retail food chain, or a foreign association formed to purchase supplies for distribution to affiliated chainstores 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 cooperative's product in the form in which it was exported from the United States. Thus a housewife may be the end user of fresh oranges, a bakery may be the end user of canned cherries, a soybean-crushing firm may be the end user of bulk soybeans, or a textile mill may be the end user of baled cotton. Many U.S. cooperatives would prefer to sell direct to end users—to "eliminate the middlemen"—but this usually is not feasible. Most end users prefer to have importers obtain supplies for them from foreign sources.

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 a foreign country where importing is handled through a monopoly created and controlled by its national government, the government agency usually is called a "state-controlled trading company."

Distribution Channels

Each of the firms described under "direct sales" and "indirect sales" may help a U.S. cooperative move its product into or through foreign distribution channels. For example, an export agent or foreign sales representative may help move the product into such a channel, whereas an export merchant or foreign distributor is actually a part of a foreign distribution channel.

For each commodity exported there are alternative distribution channels in every foreign market—except in those countries where importing is handled by a state-controlled monopoly.

There are portions of the foreign distribution channels with which a U.S. exporting cooperative may never come in direct contact. Nevertheless, they should not be ignored. Included are wholesalers, chain retailers, independent retailers, hotels, restaurants, and the institutional trade—schools, hospitals, prisons, and company-operated food facilities for employees. There also are processing, wholesaling, and retailing firms that serve specialized markets such as those involving dietary foods, "natural" foods, and foods for the aged. Sometimes it is desirable for a cooperative to locate an importer who supplies such firms further along in the foreign distribution channels.

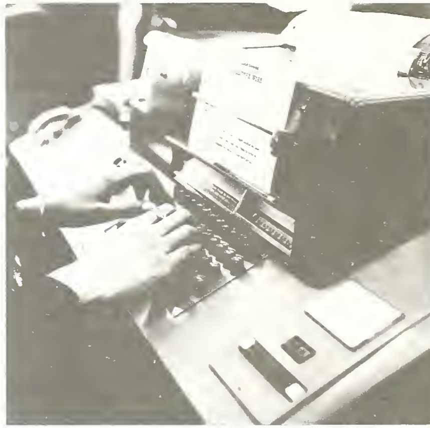
MARKET RESEARCH

"Export market research" may be defined as the collection and analysis of factual information about the effective demand for a selected commodity in a foreign geographic area. Such research may provide answers to questions like these, for example: In what quantities, to what sales outlets, through what distribution channels, and under what other conditions can fresh strawberries from the United States be sold successfully in Stockholm, Sweden?

"Export marketing research," on the other hand, concerns the gathering and analysis of information about possibilities for increasing efficiency in the movement of a given commodity to buyers in a foreign geographic area. For example, what are the most efficient methods of packing, loading, stowing and transporting fresh strawberries from the United States to buyers in Stockholm, Sweden? While both "market" and "marketing" research are important, the former is more basic to evaluation of export sales opportunities and will be discussed here.

Every exporting cooperative needs to engage in market research to some extent. The scope, depth, and degree of professionalism required for such studies will vary con-

Research and development of new products contribute to the continuation and expansion of an effective export marketing program. Although most exports by the California Almond Growers Exchange are presently in bulk form, other products providing nutritional supplements to basic diets are becoming increasingly important as the world population increases.



Sales and transportation information is transmitted to each point in the Sunkist Growers, Inc., sales organization by modern telecommunications equipment.

As a cooperative's export business grows so do its information needs. At its headquarters in Sherman Oaks, Calif., Sunkist Growers, Inc., has the modern data processing facilities needed to provide current information about supplies and sales.

siderably according to commodity, volume, market, and previous experience in exporting—but the need is always there.

After management has appraised the resources, competitive strengths and weaknesses of a cooperative, and has determined that it may be feasible to initiate or to expand an export program, market research is needed to assist in selection of a market for study and to appraise the supply-demand situation, sales outlets, and local customs and practices in that market. The next step is to put all of the information together and to determine whether the export proposal is feasible. The final decision on exporting then can be made.

The preceding section of this report on "Technical Assistance" sources enumerates a wide range of public and private sources of information about individual foreign markets. Each exporting cooperative should contact as many of these as practicable.

Selection of Market for Study

A cooperative interested in developing or expanding an export marketing program must first choose between general areas such as Western Europe, the Orient, Latin America, or West Asia. Then it should focus on a single large market within that area. This might mean selecting a country such as Iran or a city—such as London or Tokyo—that serves many millions of consumers.

Market access is a prime consideration in selection of a market for further study. This involves consideration of both tariff and nontariff barriers that may not be applied uniformly to shipments from all countries. Preferential treatment extended to other countries with respect to import quotas, import licenses, and application of tariffs and other import levies may so restrict a U.S. firm that it cannot compete effectively in a given market. If this is the case, there is no need to study that market until access by the cooperative is feasible.

Cooperatives making commercial export sales traditionally have relied heavily on the markets in Western Europe. Certainly these markets should continue to be prime targets. But now the cooperatives, as well as other U.S. exporters, are giving increased attention to those markets that are growing rapidly. Included are the countries of the Arabian Peninsula, the U.S.S.R. (Union of Soviet Socialist Republics), and the centrally planned countries of Eastern Europe. Japan is our largest national market, but other countries in the Orient—including Taiwan and the People's Republic of China—are likely to be substantial buyers of American agricultural commodities during the years ahead.

Saudi Arabia provides an example of spectacular growth in demand. U.S. agricultural exports to that country were valued at less than $36 million in fiscal year 1973, but rose to nearly $124 million in fiscal year 1975. Grains and preparations—primarily wheat flour and rice—accounted for about $98 million during the latter year.

A study completed in 1974 indicated that certain foods, in addition to grains and preparations, have a high sales potential in Saudi Arabia and some neighboring countries.[8] Included are canned fruit, especially fruit cocktail; seven kinds of canned vegetables; six kinds of canned fruit and vegetable juices; frozen chicken and turkey parts; and textured vegetable protein. In the report it was noted that development of supermarkets is expected to expand sales opportunities for U.S. processed foods.

Transportation facilities and costs present special problems in West Asia (formerly called the Mid-East), and tend to make sales at U.S. loading ports more attractive than sales for delivery to foreign ports. Regulations pertaining to additives

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[8]Sheppard, Daniel and Olson, Don W. Saudi Arabia, Bahrain and Kuwait Food Study. U.S. Dept. of Agriculture and National Assn. of State Depts. of Agriculture, unnumbered report, 81 pp., see p. 23. Aug. 1974.

are stringent, and different business customs also create problems—though none are insurmountable.

The developing countries of the world comprise a new and expanding market that deserves special consideration. Extra precaution also is required. Many of the problems involved in commercial trade tend to be greatly magnified. In those countries, there often is a shortage of foreign exchange, tight government control over imports as well as exchange, widely fluctuating market rates of exchange, a need for substantial lines of credit, underdeveloped banking systems, unusually high interest rates and other financing costs confronting importers, high ocean transportation rates and long delays in unloading, possibilities for abrogation of contracts by buyers due to political developments or other reasons, and insufficient information available to U.S. exporters about the credit ratings and performance records of potential buyers.

This enumeration of risks involved in commercial sales to developing countries does not preclude sales to those countries. Much of the risk can be avoided by participation in government financing programs (as discussed later under "Financing") and by careful selection of the terms of sale. For example, delays in unloading or mishandling of a commodity at a foreign port of discharge are not the responsibility of the U.S. exporter when title to the commodity is transferred to the buyer at a U.S. loading port.

A few U.S. cooperatives have made sales to state-controlled trading companies in nonmarket economies. Such sales are not for neophytes in the export business, but opportunities there will deserve increased attention by U.S. cooperatives during the years ahead. The U.S.S.R., People's Republic of China, Poland, and other countries in Eastern Europe have the potential for increased purchases of some American agricultural commodities.

In fiscal year 1974, the U.S.S.R. purchased wheat, corn, soybeans, grain sorghum seed, almonds, lemons, and other commodities from the United States. All of the named foods and feeds can be supplied by cooperatives.

Grain accounted for about 96 percent of the U.S. sales of agricultural commodities to the U.S.S.R. in fiscal year 1974. It appears reasonable to anticipate an upward trend in opportunities for selling certain commodities that are not or cannot be produced efficiently in volume in the U.S.S.R. Citrus fruits are an example.

Some of us tend to forget our "neighbors" when we think of the export trade. For some commodities this is quite unrealistic. Consider U.S. exports of canned fruit cocktail, a food for which our country has a worldwide reputation for high quality and for which cooperatives play a key role in exporting.

During the 12-month period ended May 31, 1974, U.S. exports of canned fruit cocktail were substantially greater to Canada than to the next three largest importing countries combined. Canada accounted for more than 10 percent of our worldwide exports of this commodity.

In this section, primary attention has been given to the market areas of the world that are unfamiliar to most cooperative executives and directors. Western Europe and Japan will continue to be tremendously important outlets for U.S. agricultural commodities. Even though they are established as "best customers," they should not be overlooked when a cooperative seeks to initiate or expand export marketing activities.

After a market has been selected for study, research is necessary to obtain information needed to evaluate opportunities for sale of the U.S. cooperatives's commodity. This involves consideration of the supply-demand situation, sales outlets, and local customs and practices.

Supply-Demand Situation

Much of the world is characterized by increasing populations, limited productive capacities for agriculture, rising incomes nationally, and the ability to pay for more costly and a wider variety of foods. These basic factors have led to increases in foreign import needs for U.S. foods, feeds, seeds, fibers, and breeding animals.

On the other hand, the *effective* demand—desire plus financial ability to buy—for our agricultural commodities has been affected adversely in some developed countries by economic recessions and a need to spend more money for imported petroleum products. Protectionism for their own agricultural industries has increased in most of those nations.

In many developing countries, the population is increasing greatly and farmers and governments find it difficult to provide sufficient quantities of basic foods. Effective demand for imports is not growing at a rate equal to the population growth rate.

Thus basic supply-demand situations vary greatly among the nations of the world.

After an American cooperative has selected a foreign market for study, it must gather detailed information about the supply-demand situation in the market. That situation has a direct bearing on the possibilities for successfully selling the commodity marketed by the cooperative.

A large-scale, complex export program can involve a great deal of market research to determine how a mix of scores of economic, sociological and political factors determine the supply and demand conditions in a given market. Most cooperatives neither have nor need the resources for such a study.

The potential for exporting a U.S. commodity to another country is affected by changes in effective demand in that country, changes in supplies in the country, changes in supplies in our country and others, and competition from all other goods and services for the available supply of marks, guilders, pesos, or whatever the local currency is called.

Perhaps the first step in this analysis is to gather published and unpublished statistics and other information available from various sources in our country and the foreign country.

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 from other sources, and trends in the domestic production and consumption in the foreign country. This should be supplemented, at a later stage, by information about the way in which the commodity is used or 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 barriers of various kinds, outlook for preferential arrangements between the foreign country and other countries, nature and intensity of competition provided by domestic supplier firms, and the major kinds of importers—that is, import agents, foreign distributors, etc. It also is desirable to know the export capabilities and probable competitive impact in this market of suppliers located in other countries.

Political stability, or instability, and friendly or unfriendly attitudes toward the United States on the part of political leaders in the foreign country, may limit the effectiveness of commercial demand in that country.

Throughout the research study, and before and after preliminary analysis of data, efforts should be made to discuss export opportunities with informed persons in this country. Similar contacts with informed persons in other countries should be made before the study is concluded.

In conjunction with the survey of supply-demand conditions it is necessary to consider some of the foreign physical facilities involved in handling quantities of a U.S. commodity to meet foreign demand. Are overseas port facilities sufficient for rapid and careful discharge of 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 commodities large enough, competent, and willing to work without frequent or sudden work stoppages?

Procedures for obtaining more specific information about the demand in a foreign market for a cooperative's commodities are discussed later under "Buyer's Requirements."

Sales Outlets

The relative advantages and disadvantages of each sales and distribution channel should be considered carefully before an exporting cooperative commits itself to any one of them. This requires market research.

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 without success? If so, why did they fail?[9]

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

The previous section on "Technical Assistance" enumerates many useful references and contacts available to cooperatives faced with the challenge of selecting foreign buyers or foreign sales representatives. Included among these are, for example, the Trade Opportunity Referral Service of the Foreign Agricultural Service of the U.S. Department of Agriculture, the World Traders Data Reports of the U.S. Department of Commerce, and commercial banks with international departments. As noted in the "Miscellaneous" subsection, a firm's reputation among other business firms engaged in international trade also is a key factor in selecting a foreign buyer or representative.

Local Customs and Practices

We Americans tend to forget that there are differences in social and business customs and practices when we are planning to probe for new sales opportunities in a foreign market. This is not a kind of oversight peculiar to Americans, of course, but we must constantly remind ourselves that we are the foreigners when we visit a foreign market.

This is not the place to present an in-depth review of the local customs and practices in the major and minor markets of the world, but neither can we overlook the human factor. Many a potential export sale has been lost because a salesman thought that product-plus-price-plus-service were all that was needed.

Information on local business customs must be obtained before the first visit is made by cooperative representatives to any country. "Courtesy" is the key word—but a practical business definition of it may vary from country to country.

There are exceptions to all generalizations about groups of people, but a few gen-

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[9]To illustrate this point, one might consider past attempts to sell (1) frozen foods in consumer-sized packages in markets where few consumers had home refrigerators, or (2) packaged cake mixes in markets where housewives still felt there was something almost shameful about not adhering to traditional procedures in baking.

eral comments here may serve to emphasize the need to observe local customs and practices.

Language barrier. In conformance with the "melting pot" theory as a means of blending peoples from many nations into one nation, we have always emphasized the need to speak a common language—English. It is fortunate that this has been the case in our country, but it has led to some problems in international trade. We must communicate with people in other countries if we are to trade with them, and in their countries a cooperative representative usually has to speak their languages or have an interpreter available.

Most U.S. export sales of agricultural products to Japan have been made to huge Japanese trading firms. Each of these firms has one or more offices in our country. They are staffed by English-speaking people. If, however, it becomes necessary to deal directly in Japan with top executives of the large trading companies, or with smaller importing firms, chainstore organizations, or specialized firms engaged in wholesale or retail distribution, a cooperative's representative must either speak Japanese fluently or forever be accompanied by an interpreter.

Reliance on a multilingual representative or an interpreter is the general rule in the countries of the world other than the northern and central countries of Western Europe, and the English-speaking countries such as Australia and Canada.

Business hours. It is a simple matter to find out from the U.S. Department of Commerce or private sources what the holidays are in any foreign country. Yet this is something that persons new to exporting tend to overlook.

Each country has its own national holidays, and there are many differences with respect to religious observances. A cooperative's representative needs to know the days on which he cannot expect an answer to a cable, teletype, or telephone message to a foreign office. Itineraries in foreign countries also have to be developed with due recognition to the days on which business offices will be closed.[10]

Time differences also are important with respect to international communications. For example, if it is 3 p.m. in the office of a U.S. cooperative, but 10 p.m. in the office of a London buyer, one cannot expect an immediate response to an urgent message to the buyer.

There also are differences with respect to normal office hours. In many countries it is customary to have meals later in the day than in most U.S. cooperative offices. Lunch comes after the "noon hour," and dinner may be as late as 9 p.m. Luncheon periods also tend to be longer, and in some warm climates there will be a long break during the mid-day heat. On the other hand, an overseas buyer's office may be open during the evening.

Formality. In this country, we have rather wide differences among regions, localities, and individuals with respect to the degree of formality observed in conducting business. Similar differences exist in other countries, of course, but some practices that are common in this country may not be common in a foreign country. Here are a few illustrations:

1. One or more letters of introduction from mutual acquaintances will help a cooperative's representative to obtain appointments and begin business discussions with spokesmen for a Japanese firm. Further, prior to, or at the initial visit, the cooperative should provide written information about its size and kind of business, the extent to which it is prominent in its particular branch of U.S. industry, the specific commodities it has available for export, and credit references and other pertinent information.

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[10]RCA Global Communications annually issues a list of "World Holidays." This is a convenient reference.

2. In England, the Benelux countries, and in Scandinavia, for example, it is desirable to have a confirmed appointment before calling on a potential buyer. It also is important to be punctual in keeping the appointment.

3. Many of us like to use the given name or nickname of the individual representing another American firm. In West Germany, for example, most businessmen tend to resent such familiarity until an acquaintanceship is of relatively long standing.

Decisionmaking. In making a call on a foreign buyer it is desirable to have enough information at hand to be able to close a deal. A final call to the home office may be necessary to check current prices and stocks of selected items, but such calls should be kept to a minimum.

Yet many sales to foreign buyers—particularly the initial sales—are likely to involve a rather long waiting period before the buyer's decision is made. (For commodities with volatile market prices, the cooperative then may have to requote its offering prices.) In a Japanese purchasing firm, for example, more people may be involved in the ultimate decision than would be the case in an American firm. In some countries, there may be time-consuming governmental clearances necessary, while in some Asian countries it simply is not customary to reach a final decision quickly.

In addition to courtesy, representatives of American exporting cooperatives need patience, adaptability, perseverance, and business acumen to develop successful export sales.

Feasibility Study

The objective of an export feasibility study is to determine whether a given export marketing program proposal can be carried out successfully. Such a proposal may be expressed as a question.

The most basic question for cooperative leaders who are interested in developing foreign sales, but who do not have previous experience in exporting, is this: "Is it feasible for our cooperative to engage in export marketing?"

Another question that may confront cooperative leaders with or without export experience may be expressed essentially this way: "Is it feasible for our cooperative to export our commodity to that selected foreign market?"

The answers to these questions can be developed through export market research, supplemented by an objective appraisal of the structure, organization, facilities, resources, capabilities, and domestic competitive position of the cooperative.

The nature of the export market research needed is indicated by the preceding sections on:

Selection of market for study
Supply-demand situation
Sales outlets
Local customs and practices

A careful review of the information about a foreign market can enable a cooperative's management to arrive at realistic conclusions with respect to size, stability or instability, and other characteristics of the market.

One of the first things to do under the supplementary study is to look at the domestic supply and utilization situation for the commodity the cooperative wishes to export. Data should be assembled to show various trends on a seasonal and annual basis and on a state and national basis. Included would be monthly data on volume produced on farms, value of farm marketings, farm prices, prices of the finished product or bulk commodity at assembly points, volume and value of exports, and—where applicable—number of acres harvested; average production per acre; season-end carryovers; and kinds, sizes, volumes, varieties, qualities, and packs of raw or finished products. In some instances, it might be useful to study the domestic supply and utilization of competing products, or even the trends in U.S. imports of the same commodity or competing commodities.

With this as a background, attention can be given to the strong and weak points of the cooperative. Here are questions to help focus attention on important considerations:

1. Is an adequate volume of the selected commodity available from interested producers in a relatively compact geographic area? Is production sufficiently stable to maintain a reasonably steady volume of export business?

2. Is strong farmer leadership available?

3. Is competent management available? (Someone would have to bear responsibility for making decisions in a business-like way and handling all details.) Would other competent staff personnel be available?

4. Will producer-members support an export program? Will they commit a portion of their output to the program, and then stick with the program throughout a trial period of reasonable length?

5. Is the cooperative now organized and structured to handle this kind of business? To the extent necessary, can it administer export sales, and charter vessels or make other arrangements for international shipping? Should it establish a specialized export corporation, such as a DISC (Domestic International Sales Corporation) or a WHTC (Western Hemisphere Trading Corporation)? Should it join with other farmer cooperatives to pool export efforts?

6. Are special marketing contracts between producers and the cooperative needed? How about contracts between the cooperative and foreign buyers?

7. How will the export business be financed? (It is necessary to develop budget estimates to show anticipated capital requirements, sources of capital, operating costs, payments to members, etc. Members should supply some of the capital needed.)

8. Will it be necessary to build or lease additional facilities, in the cooperative'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?

9. What are the usual problems in the domestic marketing of this commodity? (Such as wide fluctuations monthly, seasonly, or annually 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?

10. How do the costs of handling the commodity in this area, 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?

Tentative answers to most of these questions would have been developed before foreign market research was undertaken. The questions need to be reconsidered, however, in view of the greater mass of information available as a result of the research.

In some instances, there may be special problems or opportunities with respect to exporting only a portion of a commodity. For example, a cooperative may find an unusually attractive market in Japan for small broiler drumsticks of uniform size, but it may also find that committing a substantial volume to such a specialized market may make it difficult to market other parts of a broiler for which there are no comparably specialized markets. On the other hand, exports of edible beef offal to Western Europe may increase total gross receipts of a slaughtering plant. The greater demand overseas for the specialty products may increase their value without interfering with the domestic marketing of other portions of a beef carcass. The objective in any case must be to maximize the net returns to producer-members for the commodity as a whole.

It should be evident from the foregoing discussion that an export feasibility study requires a great deal of research. In many instances, a cooperative will need "outside" help in making an initial study of this kind. When the time comes to consider expansion involving additional markets or commodities—or both—it may have acquired sufficient expertise to evaluate its own experiences to date and to consult directly with various sources of assistance as mentioned in a previous section of this report.

If a study indicates that an export program proposal is feasible, a trial shipment will be the best way to test this conclusion. Such a shipment should not be a haphazard affair. It requires the same careful planning and adherence to detail as any other export sale. But it can be made without committing all the resources needed for a continuing program.

RELATIONS WITH BUYERS AND REPRESENTATIVES

Whether a cooperative is engaged in "direct" or "indirect" exporting, it must select carefully the foreign buyers with whom it deals.[11] This usually is a more difficult task than in the domestic trade—and the stakes may be higher. Intuition may play a part in selection, but there is no substitute for research.

Similarly, selection of a foreign sales representative involves a key decision by a cooperative's management.

A cooperative may select buyers without having a foreign sales representative, but there would be no point in selecting a representative in an area where there were no potential buyers. Further, a foreign representative often helps select buyers, but the entire responsibility for selection is not his. The cooperative's management still carries the basic responsibility.

Approval of a foreign firm as a potential buyer often is a rather "rush" job. The possibility of losing an attractive sale, or of losing a new outlet for a potential flow of continuing sales for the future, may exert considerable pressure on a cooperative's management. Yet a too hasty decision may lead to losses of both time and money.

Selection of a foreign sales representative involves a closer and more lasting arrangement than those with most buyers. Much more time is available, and necessary, to make that selection.

Imperfect communication is a problem in domestic trade, but opportunities for misunderstandings are much greater in international trade. Language differences, such as those between English and French or English and Japanese, and differences in use of certain words or phrases, as in British English and American English, can all lead to confusion. Differences in business practices, monetary denominations and values, measures of size and weight, and product and package specifications, can contribute to misunderstandings between a cooperative seller and a foreign buyer or between a cooperative and its foreign sales representative.

Buyer's Requirements

A foreign buyer should be considered as a customer, not as an inanimate link in a chain of firms comprising a distribution channel in a foreign country. As noted earlier, sales are made to *people*, not to offices or manufacturing plants.

Information on the current commodity interests of selected foreign importers can be obtained via letter, cable, teletype, or telephone by a cooperative that has established personal contact with each importer. It also is possible—though more difficult if there has been no previous personal contact—to find out through correspondence

[11] See questions relating to distribution channels, and sources of information about buyers, in previous section on "Sales Outlets" under "Market Research."

Executives of cotton textile companies and trade associations in Europe and the Far East, accompanied by USDA officials and personnel from the National Cotton Council and Cotton Council International, tour the cotton salesrooms of Staple Cotton Cooperative Association, Greenwood, Miss. These participants in a 2-week tour of the Cotton Belt included representatives from Hong Kong, Hungary, Indonesia, Japan, Korea, Malaysia, Philippines, Portugal, Romania, Singapore, Spain, Taiwan, Thailand, and South Vietnam.

Maintenance of high quality of product is a continuous process in export marketing. Here a final check is made of grapefruit packed for export by the Texas Citrus Exchange.

Sorting of products is an essential part of many export operations. Each almond is inspected up to seven times by the California Almond Growers Exchange before being sent to a customer. The initial inspections are by electronic sorting machines, which use electric eyes to separate out broken or scratched kernels, and the final inspections are by sorters who view the almonds passing by on belts which regularly turn over the kernel to expose all aspects of it to the sorter.

The convenience and security of van containers are utilized by many cooperatives. These containers contain Diamond walnuts being shipped by a specialized export marketing cooperative, Diamond/Sunsweet, Inc., of Stockton, Calif.

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.

"Feeling the pulse" of a market is a term used to describe 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.

Pulse-taking is within the capability of every exporting cooperative, and is a minimum requirement for every such cooperative. To take the pulse of a foreign market, a cooperative must send qualified persons to the market to obtain information first-hand. This means sending one or more persons who have export program responsibilities.

A basic part of the process of "feeling the pulse" of a market cannot be handled effectively by correspondence. What are the attitudes and opinions of individual foreign businessmen regarding the United States, our agricultural commodities, and our farmer cooperatives? How favorable or unfavorable is the foreign market environment for maintaining or increasing purchases of our products? What changes are likely? Answers to such questions can best be obtained through personal interviews.

Illustration 1 is a form developed by the author that may be used to summarize information obtained during a personal interview with a selected food buyer. It is not used as a questionnaire, but does help systematize collection and retention of basic information about a firm. It identifies key individuals, describes the business, and outlines food purchase requirements—present and potential.

Information obtained for which there is no space on the form is recorded on attached sheets, according to block numbers appearing on the form.

The form does not provide for recording all important information about a buyer. For example, no reference is made to credit and performance ratings. It will, however, simplify keeping a record file of interviews made over a period of time.

Elements of a Sale

The foreign buyer is interested in these four basic elements of a sale:

Product, price, performance, and profit.

He usually wants to study a sample of the product offered by a cooperative seller. The sample should be representative of the kind of product the cooperative can supply regularly and in quantity, rather than a selection of examples of the very best quality handled by the cooperative.

Many foreign buyers—as in Western Europe and Japan—stress uniformity in quality. They want the same quality, whether size or grade, in each shipment they receive.

For food products sold under the brand name of the cooperative, a foreign buyer often will seek exclusive use of that brand name in a designated geographic area that is his sales territory. This is to enable him to cash in on his sales, promotional, or advertising efforts to promote that brand. It may be to the advantage of the cooperative to grant to him exclusive use of the brand name in a designated territory.

The foreign buyer seeks to buy at the lowest practicable price in order to maximize his gross margin. If he is a dependable buyer interested in developing a continuing business, he can recognize the stake that the cooperative has, as well as the benefit to his own business, of settling on a price that reflects the competitive market situation in relation to the quality and quantity of the product sold. A cooperative generally is 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 cooperative supplier is vitally important to the foreign buyer. The product shipped should conform to the product and delivery specifications of the

Illustration 1: INDIVIDUAL BUYER INTERVIEW RECORD

(A) Name and address of firm:

(B)
Phone:

Cable:

Telex:

(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.) -
Total annual $ volume:

(H) Number of employees:
Annual import $ volume:

(I) U.S. foods now handled -
Kinds of foods and packs:

Names of firms with which deal regularly:

Kinds of sales arrangements:

(J) U.S. foods for which new sources desired -
Kinds of foods and packs:

Kinds of sales arrangements:

(K) Other information:

(L) Last personal interview with co-op - Place: Date:

Rep(s). of buyer:
Rep(s). of co-op:

sales agreement. The dependable buyer also wants a dependable supply—continuity in deliveries.

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:

1. It can tell a foreign buyer that it is not interested in sales to his market during the current marketing year.

2. It can quote a price to the foreign buyer that is sufficiently higher than that obtainable in the U.S. domestic market, or in other foreign markets, to make a sale to him financially attractive to the cooperative.

3. It can guarantee in advance that the foreign buyer will receive a specified minimum proportion of the cooperative's supply. For example, the proportion available to him during the current marketing year would be the same as he purchased during the previous year. This would mean a smaller quantity in absolute terms, but would mean that he would have a share of the cooperative's supply and could still sell to his customers, even though in reduced quantities. Price also could be guaranteed in advance. The maximum might be based on the current price of the specific U.S. product in the foreign market or in the U.S. domestic market.

The first of these three alternatives never should be used by a cooperative interested in a continuing export program. The second alternative may be adopted under certain circumstances, such as a need to gain the cost advantages of several shipments to a few buyers over many shipments to many buyers. The third alternative may be in the long-term interest of the cooperative, especially if it 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, might 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.

Another point to consider relates to the foreign buyer's interest in making a profit. In every capitalistic country (and in some others) the buyer can continue in business only if he can obtain a net profit over a period of several years. He is not in business to foster international good will.

A sale to a buyer in a "nonmarket economy"—such as the U.S.S.R.—differs considerably from an ordinary commercial export sale. There is only one buyer for the commodity, a government agent or agency; the agency's decision to buy or not to buy may be influenced or controlled by overriding economic or political decisions; and the buyer has no interest in promotional or advertising materials or programs.

Careful, thorough scrutiny and evaluation of all factors involved in a sale to the U.S.S.R., for example, is imperative for any U.S. cooperative considering business in such a nonmarket economy. In some cases, it may be desirable initially for a U.S. cooperative to sell indirectly through another U.S. firm, or a firm in Western Europe, that has established business relations with the governmental agency in the nonmarket economy.

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. *Buyers' 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 terms of purchase—including method of payment.

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 certification of composition or viability.

3. *Shipping requirements*, particularly temperature and humidity. Also availability of various modes of ocean or air transportation—frequency, dependability, comparative costs.

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.

As noted earlier, imperfect communication can be a serious problem in international trade. There must be agreement between buyer and seller 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. Illustration 2 provides a checklist that can assist a cooperative to be reasonably certain that it obtains all of the information needed from the buyer, and provides to him all the information he needs from a seller. The result may be a sales offer by the cooperative that can lead to a sales agreement fully understood by both parties.

A few key abbreviations (such as "f.a.s." and "f.o.b.") and terms (such as "consignment" and "joint account") will be explained later in this report under "Export Business Techniques." The objective here is to indicate a way of working with a potential buyer to reach the point of understanding and agreement at which a sale can be made.

A regular two-way flow of information between the cooperative and the buyer will not only reduce the possibilities for misunderstandings about an initial sale, but also increase opportunities for further business.

The cooperative can supply information about the current situation and outlook for its commodity. This will include reports on supply conditions and prices, at home and abroad. It also must respond promptly to all inquiries from the buyer (or potential buyer), even though it may have no supplies to sell at the moment. In the event it is interested in a sale for near-term or later delivery, the cooperative will state in its acknowledgement of the buyer's inquiry that a detailed offer will follow within a specified period.

Many communications between seller and buyer can be handled by mail, cable, or telephone. An exporting cooperative soon will find that acquisition of—or access to—teletype facilities is highly desirable.

Speed, as well as accuracy, is needed in communications with a buyer. If the buyer feels his inquiries are not receiving serious attention, he will turn to other suppliers—in this country or elsewhere. This can result in a loss of sales by the cooperative.

On the other hand, 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.

Role of Representative

A definition of the term "foreign sales representative" was given earlier in the discussion of "Direct Sales." That definition should be reviewed before beginning this supplementary discussion. It also should be noted that this discussion pertains to foreign firms, not cooperative employees, who may represent the U.S. cooperative in a foreign country.

Several basic alternatives are available to obtain the expertise and services of a

NOTE: Checklist applies to raw and processed foods in general; not all items are pertinent to any given commodity.

KEY: BP — Buyer to express his preferences
BI — Buyer to provide information needed by seller
SP — Seller to express his 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 % 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 feet (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)

IMPORT RESTRICTIONS AND REQUIREMENTS

19. Import periods and licenses (BI)
20. Import quotas and levies (BI)
21. Sugar added, chemical additives, and/or chemical residues (BI)
22. Certificate of origin (BI)
23. Grade certificate (BI)
24. USDA (or State) inspection certificate (BI)
25. USDA phyto-sanitary certificate (BI)

SHIPPING REQUIREMENTS

26. Surface vessel or airplane (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; f.a.s., f.o.b., c.&f., or c.i.f.; 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. Sale for buyer's own account, or consignment, joint account, sight draft (payment at first presentation of documents), irrevocable letter of credit (domestic or foreign bank) (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 he is acting as agent rather than actual buyer(s) (BI)

DISTRIBUTION

43. Geographic area involved (BI)
44. Distribution channels (BI)
45. Extent (if any) to which buyer will have exclusive distribution rights in specified area(s) (BP,SI)

PROMOTIONAL ITEMS SUPPLIED BY SELLER

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

foreign sales representative. First, a cooperative may have such a representative in each major foreign market in which it seeks to sell commodities regularly, several representatives with each serving several markets, or one representative for sales to all foreign destinations. Second, it may use its representative(s) for all sales to foreign destinations, or for only those export sales for which the cooperative bears the responsibility for delivery of the commodities to an overseas port.

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

The overseas representative may serve a cooperative as a resident salesman or as a foreign import agent with special ties to the cooperative. He may also perform additional services.

An agent who might be called a "full service" representative can be an integral part of a cooperative's export program. The cooperative is the shipper, and bears the responsibility for all major decisions in developing and maintaining the export program, but the "full service" foreign representative provides all or most of these important services:[12]

1. Obtains information from various sources to aid in selection of dependable buyers.
2. Arranges for shipment of sample quantities of the cooperative's products and delivers or sends them to potential buyers.
3. Estimates all costs, beyond the U.S. loading port, to be incurred in a sale for overseas delivery of the cooperative's products.
4. Sells the cooperative's commodities, subject to final confirmation by the home office, to foreign buyers.
5. Reserves space on vessels to provide for overseas delivery of the products.
6. Meets with the foreign buyer or his agent soon after an initial shipment of the cooperative's product is received, to discuss all aspects of the sale and delivery.
7. Resolves misunderstandings (if any) between buyer and seller.
8. Provides a detailed accounting of all expenses incurred on behalf of the cooperative.
9. Assists the cooperative, if necessary, in collection of payments for shipments to foreign buyers.
10. Regularly calls on established buyers, and potential buyers, and assists them with promotional activities designed to increase sales of the cooperative's commodities.
11. Keeps informed about regulations and actions of the foreign government(s) affecting imports of U.S. commodities of the kinds he sells for the cooperative.
12. Acquires and transmits to the cooperative, regularly and quickly, important information about changing conditions in the overseas market.

Under exceptional circumstances such a firm can act, in effect, as a cooperative's export sales department. In such case, the foreign sales representative performs essentially the same basic function in a foreign country that an export management company (EMC) can perform in this country.

In most instances—and in all instances when a cooperative has two or more foreign sales representatives acting independently of each other in different markets—the export sales function must be centered in the cooperative's own export sales unit. This calls for a trained, experienced, high-caliber staff led by a competent export sales man-

[12]Because soybeans and grains (including rice) are often sold in full shiploads, whereas most agricultural commodities are sold in less-than-shipload quantities, the foreign sales representatives for grain cooperatives may have special functions to perform. See pp. 17-18 of reference cited in footnote 5.

ager. Maintaining close and effective working relations with sales representatives is a part of his responsibility.

It is important, of course, that the agreement between the cooperative and a foreign sales representative be prepared carefully in written form. 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 key points to cover. Attention should be given to avoiding conflict with the laws of this country and the country in which the representative has his headquarters.

EXPORT BUSINESS TECHNIQUES

Many business techniques used in export marketing are adaptations of those used in domestic marketing. Others differ significantly. Thus the export business involves additional marketing challenges, but none is insurmountable.

Persons who have not been engaged in international trade—whether associated with cooperatives or not—tend to adopt one of two extreme concepts:

1. *Concept*: The export business is something so "foreign" that only a very large firm with a highly specialized export sales staff should dare to engage in it.

Fact: The basic business principles are the same for foreign sales as for domestic sales.

2. *Concept*: The export business is merely an extension of domestic marketing.

Fact: Certain additional procedures and precautions are essential for a successful export marketing program.

Thus, the nature of the export business is somewhere between these extreme concepts. It is not a simple and easy way to expand markets. Neither is it something that should be arbitrarily ruled out by the membership and management of a cooperative simply because their association has no previous experience in exporting.

In a basic way, export marketing is the same as domestic marketing. The exporting cooperative has to sell the products buyers want, and where, when, and how they want them. There are many differences with respect to trade barriers, transportation, documents, convertibility of money, financing, collection of payments, and units of weight and measurement. To overlook any one of these differences could lead to a loss on a sale.

The kinds of export techniques and practices adopted by a cooperative will differ according to kind of commodity, degree to which a commodity is processed, foreign market selected, and other variable factors. A few comparisons may help illustrate some of the significant differences in marketing agricultural commodities:

Fresh produce—Perishable, usually relatively low in value per pound.

Processed foods—Easy to ship and store, relatively high value per pound, ocean freight cost for food solids relatively low if much of water and inedible portions removed prior to export.

Red meats and poultry—Refrigeration required.

Live animals—Highly perishable, special handling required continuously, detailed specifications involved.

Grains and soybeans—Handled in bulk, low value per pound, not highly perishable, often in shiploads in chartered vessels.

The general organizational structure needed for an effective export marketing program will not be discussed in this report, except for a few comments later concerning "New Opportunities" for "Groups of Cooperatives." Also omitted here is consideration of the administrative structure: Who on the cooperative's staff makes what decisions? How can sales and office staffs work together most effectively? How and in what sequence can an export sales order and shipping documents be handled with greatest speed and efficiency? Questions such as these need answers.

Loading ship cargo containers of canned fruit cocktail at a Tri/Valley Growers' warehouse.

Pallet loads of canned yellow cling peaches are unloaded for repositioning in the hold of a ship. They are being exported by Tri/Valley Growers, San Francisco, Calif.

Van containers have become an important mode of international transportation for many food products. These containers hold quantities of Florida citrus products destined for overseas markets. Citrus Central, Inc., of Orlando, Fla., is the shipper.

Loading wheat destined for Brazil at the Producers Grain Port Terminal, Corpus Christi, Tex.

In this general guide, attention will be given to the most common and important export business techniques. Some alternatives, but not all, will be discussed.[13]

This maxim should be kept in mind by the reader with limited export experience: Exporting is more than a simple extension of domestic marketing, but there is no export technique that cannot be mastered by cooperatives.

Delivery Terms of Sale

Delivery terms of sale are referred to frequently in discussions of other export practices and techniques. It is desirable, therefore, to consider them carefully.

Each of the delivery terms of sale is used in domestic marketing as well as export marketing. For example, in a general sense the f.a.s. delivery term refers to delivery of a commodity alongside a "carrier" at a "designated location." The carrier may be a truck, railroad, barge, ship, or plane, and the location may be the co-op's plant, a rail siding, a wharf, airport, or some other designated place. Therefore, it always is necessary to be specific both as to carrier and location.

Extremely few overseas buyers have the knowledge and contacts needed to make inland transportation arrangements within the United States. Thus, with rare exceptions, it is a waste of time for a cooperative to offer to sell an agricultural commodity to an overseas buyer at any point short of a U.S. seaport or airport from which the commodity can leave this country.

A sale to a buyer in Canada or Mexico is a foreign sale, of course, but it usually is not an overseas sale. To simplify explanations of the delivery terms of sale—and to relate them to the circumstances prevailing for most U.S. agricultural exports—the discussion here is limited to overseas sales and shipments.

A key aspect of any export sale is the location at which title to the commodity is transferred from seller to buyer. To designate that point it is customary to use one of four delivery terms of sale.[14] Each of these is almost always referred to by an abbreviation.

First, it is desirable to understand the general meanings and relationships of these terms. Here is how each abbreviation indicates the point at which the title to a shipment is transferred from seller to buyer:

F.a.s. The commodity is alongside an oceangoing vessel or aircraft at a U.S. loading port.

F.o.b. The commodity is loaded into an oceangoing vessel or aircraft at a U.S. loading port.

C.&f. The commodity is delivered to a foreign port, but one cost—that of insurance on the cargo while it is en route from a U.S. port—is borne by the buyer instead of the seller.

C.i.f. The commodity is delivered to a foreign port, and all costs up to that point are borne by the seller.

In this context, "port" may mean either a seaport or an airport from which the shipment leaves for a foreign destination or at which it arrives from the United States. In most cases, agricultural commodities are shipped via ocean carrier, but for some commodities air transport has an advantage or offers a viable alternative.

The foregoing brief statements should enable most persons to gain a general

[13]For special consideration of grain export techniques, see publication cited in footnote 5.

[14]Some sales are made on "c.&i." delivery terms, but they represent only a small proportion of the total number of export sales of agricultural commodities.

understanding of the delivery terms of sale, but more detail is needed by persons engaged in developing an export sale.[15]

In international trade, the abbreviation for each delivery term often is used as part of another export sales term. For example, an "f.o.b. price quotation" is an offering price based on the f.o.b. delivery term of sale, and an "f.o.b. sale" is a sale in which the final price is based on the f.o.b. delivery term.

Each of the four delivery terms of sale will be discussed here in the context of an export price quotation.

F.A.S.

In an export price quotation, f.a.s. is an abbreviation for "free along side" an ocean or air vessel at a named U.S.port. Under this delivery term of sale, the seller provides the commodity and pays all expenses up to and including placing it on a dock ready for loading. The buyer pays the cost of loading into the vessel and all subsequent costs. F.a.s. price quotations may be used for shipments of packaged foods and bagged grain, as well as for many industrial commodities. Some cooperatives selling processed foods make most of their sales on the basis of the f.a.s. delivery term.

Sometimes f.a.s. is said to be an abbreviation for "free alongside" or "free alongside ship," rather than "free along side." There is no difference in meaning when reference is made to the situation at a named port.

F.O.B.

F.o.b. is an abbreviation for "free on board" an ocean or air vessel at a named U.S. port. Under this delivery term of sale, the seller provides the commodity and pays all expenses up to and including the cost of loading the cargo into the holds of the vessel.

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

The Japanese trading companies, and large companies in Western Europe that prefer to handle transocean shipping arrangements, usually prefer to buy on the basis of an f.o.b. quotation.

C.&F.

C.&f. is an abbreviation for "cost and freight." The "cost" is the value of the commodity when loaded aboard a sea or air vessel at a U.S. port, and "freight" is the cost of transportation to a named foreign port of destination or named geographic range of foreign ports. Under this delivery term of sale the seller provides the commodity and pays all expenses up to the time the cargo is unloaded over the ship's rail except the cost of the insurance on the commodity while it is in the oceangoing vessel; such insurance is obtained and paid for by the buyer.

A medium-to-large foreign importer of food may prefer to have the exporting cooperative handle the overseas shipping arrangements, but—because it has a single "open cargo policy" covering all of its imports—it may be able to obtain transocean insurance at a much lower rate than a U.S. cooperative with a relatively small volume of exports that obtains separate insurance coverage for each shipment.

The advantages and disadvantages of a c.&f. quotation in comparison with an f.o.b. quotation are essentially the same as for a c.i.f. quotation, as long as other condi-

[15]Extensive descriptions of the delivery terms of sale are given in "Revised American Foreign Trade Definitions—1941," a 16-page pamphlet developed in 1941 by the National Foreign Trade Council, 10 Rockefeller Plaza, New York, N. Y. 10020. That publication still is the most authoritative reference on this subject.

tions of sale—such as dependability of buyer and efficiency in unloading—do not differ. They are discussed next under the c.i.f. heading.

C.I.F.

C.i.f. is an abbreviation for "cost, insurance, and freight." The "cost" is the value of the commodity when loaded aboard a sea or air vessel at a U.S. port, "insurance" refers to the cost of insurance covering the commodity from the time it is loaded at the U.S. port until it is unloaded at the foreign port, and "freight" is the cost of transportation to a named foreign port of destination or named geographic range of foreign ports. Under this delivery term of sale the seller provides the commodity and pays all expenses up to the time the cargo is unloaded over the ship's rail at a foreign port.

The only difference between a c.i.f. and a c.&f. quotation is that the seller bears the cost of transocean insurance under c.i.f. whereas the buyer bears that cost under the c.&f. delivery term of sale.

A simple precaution is necessary regarding the initial c.&f. or c.i.f. sale to a foreign port. It is desirable to check in advance to make certain that the shipper's cost responsibility ends at the ship's rail. In some ports, the unloading cost, at least for grains and soybeans, is charged to the shipper rather than the buyer.

In comparison with f.a.s. or f.o.b. sales, c.i.f. and c.&f. sales involve assumption of additional risks by a cooperative shipper and require special expertise on its part. However, as will be noted later under "Shipping," these disadvantages—as well as opportunities for increasing the net margin on sales—are of far greater significance in the leasing (or "chartering") of entire vessels than in arranging transportation for the usual less-than-shipload quantitities of agricultural products.

C.i.f. (and c.&f.) sales made in less-than-shipload quantities are likely to have a major advantage in comparison with f.o.b. (and f.a.s.) sales; this is increased operating flexibility. Such flexibility may be of benefit in at least two ways:

1. The cooperative will have a greater number and wider selection of potential buyers than if it sold on an f.o.b. basis only.

2. Consummating some sales according to the c.i.f. delivery term will provide a "yardstick" for comparing net returns from f.o.b. and c.i.f. sales and for determining ocean freight conditions. As a result, the cooperative management is in a stronger bargaining position in negotiating its f.o.b. sales.

The smaller importers in Western Europe almost uniformly prefer to buy U.S. foods on the basis of c.i.f. price quotations. This relieves them of the responsibility for handling transocean shipping arrangements. Since they may purchase many commodities from many buyers, and even many countries, this can be a significant matter relative to the number of persons they need on their staffs.

Pricing

Export pricing demands the same careful attention to detail as domestic pricing, but it has some added complications that are as important as the familiar considerations involved in domestic pricing. The basic objective is the same; that is, 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

A cooperative interested in establishing a continuing export marketing program (in contrast to periodic surplus disposal activities) has these basic alternatives in pricing each of its commodities for export:

1. Take the f.o.b. 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 title is transferred to the foreign buyer.

This is the simplest method of pricing and commonly used by many cooperatives, especially the smaller ones or those new to exporting.

2. Take the price developed 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 for 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 his commodity. However, it may be considered by a cooperative that purchases supplies of an agricultural commodity on the open market to supplement quantities received from producer-patrons. It also may have significance in long-range planning for any exporting cooperative.

4. 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 f.o.b. plant for the cooperative's total output of the product.

It is not 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 cooperative's product. Recapturing lost markets can be 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.

One 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 cooperative's annual volume of production. This was discussed earlier in the subsection on "Elements of a Sale."

"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 from one time to another. 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 all sellers (as of wheat, for example) but other sellers (as of fresh cranberries) may have relatively few sources of price information. Thus there is no set pattern for agricultural export pricing.

Export pricing of commodities sold in bulk in large quantities—such as cotton, tobacco, grain and soybeans—is a highly specialized process and will not be covered here.

Estimated Costs

Producer-members of farmer cooperatives often find it difficult to understand or to accept the total marketing cost involved in moving an edible commodity from a farm to a consumer's table. The marketing margin necessarily is wider for overseas delivery than for domestic distribution.[16] This increases the need to pare export marketing costs to the minimum consistent with maximum efficiency.

An efficient cost accounting system is essential. It enables a cooperative management to develop realistic price quotations for foreign as well as domestic sales.

Once a cooperative has established a basic value for its commodity—whether it is an unprocessed product such as carrots in a packinghouse or a processed product such as canned fruit cocktail in a warehouse—it can begin consideration of export marketing costs.

Illustration 3 shows how estimates of costs for an export shipment can be developed. This illustration reflects the special costs of preparing the product for export, the cost of delivering it to a U.S. loading port, and all handling and transportation costs from the U.S. port until the commodity is delivered to the buyer at a foreign port.

Illustration 3: ESTIMATED COSTS OF EXPORT SHIPMENT

15,200 cases of 6/10 RTP cherries, water pack, U.S. Grade A.
For shipment from Port of Lakemich, U.S.A., to Port of Hamburg, W. Germany, via general cargo.
Cube: 1.0/case; 15,200 cubic feet/shipment.
Gross weight: 46 lbs/case; 699,200 lbs or 349.6 STs or 312.143 LTs/shipment.

	Total	*Per Case*
Value of cherries at Port of Lakemich[1]	[2] $125,053	[2] $8.23
Dock receipts @ $1.50/truck after first[3]	23	- - -
Port charges[4]	1,084	.07
U.S. freight forwarder's fee & costs[5]	125	.01
Value, f.o.b. vessel, Port of Lakemich	[6] $126,285	[6] $8.31
Seaway tolls @ 90¢/ST	315	.02
Ocean freight @ $33.75/LT[7]	10,535	.70
Plus 5% bunker charge	527	.03
Total ocean freight & tolls	$ 11,377	.75
Value, c.&f., Port of Hamburg[8]	[9] $137,662	[9] $9.06

[1]Value of cartoned product in seller's warehouse plus cost of preparing for export shipment and cost of delivery to loading port.

[2]Gross; does not include deduction of cash discount to apply to f.o.b. value.

[3]950 cases per truckload; 16 full loads.

[4]15-1/2¢/100 lbs.; includes loading into vessel.

[5]Estimated.

[6]Gross price. Net price is U.S. $126,285 less $2,526 (2% cash discount) or U.S. $123,759/shipment and $8.14/case.

[7]If shipment booked in next 3 weeks from this date.

[8]Not including marine insurance, import duties, and import customs charges to be paid by buyer.

[9]Gross price. Net price is U.S. $137,662 less $2,526 (2% cash discount on f.o.b. value) or U.S. $135,136/shipment and $8.89/case.

[16]For example, consider the results of an export shipment of fresh produce via refrigerated van container; the shipment was made by a Midwestern cooperative, with the advisory assistance of the author of this report. There was practically no product deterioration en route but the wholesale value of the unprocessed product in London was 8 times its value in the field in the United States. The retail markup further widened the marketing margin.

This costing was developed to provide both an f.o.b. and a c.&f. value. The importer planned to handle marine insurance under his open policy in any case. The detail given here enabled him to consider the possibility of handling the overseas shipping cost, primarily on the basis of whether he could negotiate an ocean freight rate of less than U.S. $33.75 per long ton, the rate given in the illustration.

U.S. bank collection charges were not listed here as a cost. They were expected to be very small, in this instance, and were to be paid by the seller. Normally, they would be charged to the buyer.

While the illustration is based on calculations made by the author in connection with an actual sale, the handling and transportation rate figures are not to be considered as necessarily representative at any given time.

Further, costs vary according to commodity, loading port, discharge port, medium and mode of transportation, terms of sale, and other variables. Nevertheless, Illustration 3 provides a practical example of export marketing costs and itemizes some export costs that might be overlooked by an inexperienced exporter.

Illustration 4 provides a pricing guide for food exports. It was developed by the author to summarize the major cost items customarily borne by an exporting cooperative under each of the four delivery terms of sale.

The pricing guide pertains to foods in general, and applies to fresh produce, for example, as well as for a frozen commodity such as beef tongues. Some of the terms are distinctly related to ocean shipment rather than both surface and air shipments. References to air shipment costs were ommitted for the sake of brevity.

Item 1 of the costs borne by the buyer pertains to payment of U.S. and foreign bank collection charges. The foreign bank charges always are borne by the buyer. If the transaction is also handled through a U.S. bank, the U.S. bank charges normally are for the account of the buyer. In some sales there may be no U.S. bank charges or they are so small that the seller simply makes allowance for them in his export price quotation.

Item 6 of the costs to be included in the seller's price quotation pertains to payment for the services provided by a "foreign freight forwarder" located in the United States. The nature of these services is discussed later in the section on "Forwarding" under "Shipping."

If the cooperative has a U.S. intermediary, such as an export agent, or has a foreign sales representative, the payment to the domestic or foreign firm is a part of the seller's export expense. This cost is the last item listed for the seller, although the reference in the table is limited to one kind of intermediary.

Certain administrative costs are not shown in Illustration 4. For example, the cost of communications for an export sale may exceed that for a domestic sale by a considerable margin. International communication by telephone, teletype, cable and letter is more expensive than its domestic counterpart. Personal visits with foreign businessmen are necessary but expensive. The cost of shipping product samples also is high. If a bid or performance bond is required by the buyer, this results in an additional expense. There also may be expenses incurred in obtaining certain documents, such as a certificate of origin, grade certificate, or consular invoice. In addition to marine insurance it may be necessary to pay for export payment insurance. All such expenses must be taken into consideration.

In a c.&f. or c.i.f. sale of a bulk commodity, such as corn, in which payment is based on weight at the time the cargo is discharged at a foreign port, there usually is a loss in weight of product between loading and unloading. Compensation for this anticipated loss must be made when the sale price is calculated. There also may be a fee for supervision of weighing and other operations at the foreign port, an interest or discount cost involved in financing the transaction from time of shipment to the time payment is received, demurrage (a penalty for delay in unloading), and an interest cost on

Illustration 4: PRICING GUIDE FOR FOOD EXPORTS

Delivery Term of Sale — — — — — — — — — — Costs Borne by Buyer	Cost Items to be Included in Seller's Price Quotation
F.a.s. U.S. port of shipment (*F*ree *a*long *s*ide vessel) — — — — — — — — — — Buyer pays: 1. U.S. and foreign bank collection charges 2. Loading into vessel (if separate charge) 3. Ocean freight 4. Marine insurance 5. Unloading from vessel (if separate charge)	1. Cost of merchandise, including export packing 2. Inland freight to U.S. port 3. Insurance to U.S. port and into vessel 4. Unloading from truck or railcar at U.S. port 5. Cartage (pier delivery), wharfage/unloading charges (at some U.S. ports) 6. U.S. freight forwarder's fee and costs 7. Export agent's commission, if any
F.o.b. U.S. port of shipment (*F*ree *o*n *b*oard vessel) — — — — — — — — — — Buyer pays: 1. U.S. and foreign bank collection charges 2. Ocean freight 3. Marine insurance 4. Unloading from vessel (if separate charge)	1. Cost of merchandise, including export packing 2. Inland freight to U.S. port 3. Insurance to U.S. port and into vessel 4. Unloading from truck or railcar at U.S. port 5. Cartage (pier delivery), wharfage/unloading charges (at some U.S. ports) 6. U.S. freight forwarder's fee and costs 7. Loading charge into vessel, if any 8. Export agent's commission, if any
C.&f. Port of destination (*C*ost *and f*reight) — — — — — — — — — — Buyer pays: 1. U.S. and foreign bank collection charges 2. Marine insurance 3. Unloading from vessel (if separate charge)	1. Cost of merchandise, including export packing 2. Inland freight to U.S. port 3. Insurance to U.S. port and into vessel 4. Unloading from truck or railcar at U.S. port 5. Cartage (pier delivery), wharfage/unloading charges (at some U.S. ports) 6. U.S. freight forwarder's fee and costs 7. Loading charge into vessel, if any 8. Ocean freight 9. Export agent's commission, if any
C.i.f. Port of destination (*C*ost, *i*nsurance and *f*reight) — — — — — — — — — — 1. Buyer pays U.S. and foreign bank collection charges 2. Buyer's responsibility for other costs starts with unloading at port of destination	1. Cost of merchandise, including export packing 2. Inland freight to U.S. port 3. Insurance to U.S. port and into vessel 4. Unloading from truck or railcar at U.S. port 5. Cartage (pier delivery), wharfage/unloading charges (at some U.S. ports) 6. U.S. freight forwarder's fee and costs 7. Loading charge into vessel, if any 8. Ocean freight 9. Marine insurance 10. Export agent's commission, if any

the ocean shipping charge if that charge is paid by a third party before the cooperative receives payment for the cargo.

Sales Offer and Contract

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

A few U.S. cooperatives regularly issue price lists to established foreign customers. Most begin negotiations with a more formal sales offer.

Sometimes the initial contact between buyer and seller is made by the foreign buyer. He may merely inquire whether a given quantity of a specified commodity is available, submit a detailed purchase offer including a designated price, or issue a tender.

A "tender" is a formal bid by an individual buyer to purchase—or a formal offer by an individual seller 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 goes into great detail with respect to 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 description of the product, specifies a quantity or range in quantity of product available, and specifies shipping arrangements and payment terms.

More detail usually is necessary in an export offer than in a domestic sales offer. The foreign buyer may not be familiar with the cooperative's product, kind of packaging, or other important details. (Note product, container, and package specifications listed in Illustration 2).

The 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, he also will need to know the gross and net shipping weights, and the cubic volume of each packing unit and for the total shipment. He 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 buyer also will need to know the approximate date 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 usually is qualified by setting an expiration date or by inclusion of the term "subject to confirmation." The objective in each case is to give the exporter 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 orders for a total quantity of product that is greater than that the cooperative has unsold in inventory or can soon obtain.

It is customary to receive counter offers from buyers who seek to purchase supplies of a commodity at a price lower than that offered by the exporter. This is a part of the sale negotiation process. In some instances, an exporter will anticipate such a reaction and set his first offering price at a level higher than he actually expects to receive. This technique is not always successful, however. The buyer may purchase his supplies from another source.

In all of its decisions with respect to price and other terms of sale, an export 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" often is supplied to a foreign buyer who is definitely interested in making a purchase. This is a temporary document to enumerate terms of sale that tentatively have been agreed to by buyer and seller; to provide estimates of shipping specifications, costs and dates; and to assist the buyer to meet certain requirements that may exist in his country—for example, the buyer may need an import license and cannot obtain one without attaching a pro forma invoice to his application for such a license.

Illustration 5 presents a "pro forma" invoice. It is not intended to duplicate a printed form that might be used by an exporting cooperative. Instead, it indicates the kinds of information that might be included.

Illustration 5: PRO FORMA INVOICE

(date)

COMMODITY	: Red tart pitted cherries, water pack, U.S. Grade A
BRAND	: "Cherryland"
ORIGIN	: U.S.A.
PACKING	: Cases 6/10 tins; each case 1.0 cubic ft., gross weight 46 lbs., export strapping
QUANTITY	: Approximately 15,200 cases
PRICE	: U.S. $8.89/case
TERMS	: C.&f., Port of Hamburg, West Germany
PAYMENT	: Sight draft; draft and documents to Bank of Hamburg
SHIPMENT	: From Port of Lakemich, U.S.A., via general cargo space, first possible date following confirmation of sale
DESTINATION	: Port of Hamburg
DOCUMENTS	: Negotiable ocean B/L, original and 2 copies; commercial invoice in quadruplicate; U.S. grade certificate
SHIPPING MARK	: ABC/Hamburg

Buyer:	Seller:
(name and address)	(name and address)

General Manager

This illustration was developed in connection with the same sale as that involved in Illustration 3 discussed earlier.

Normally the pro forma invoice would indicate (under "Payment") that the U.S. bank handling charges would be for the account of the buyer. As noted earlier, such an arrangement was not made for this particular sale.

Some portions of the pro forma invoice illustrated would not have been intelligible to the foreign buyer unless he had received certain information earlier. For example, "6/10 tins" refers to six No. 10 cans of the product. "Tins" is the British-English version of our word "cans" and is used frequently in exports to Western Europe. It is assumed here that the buyer already knows the size, appearance, capacity and net product weight of the U.S. No. 10 can. The cooperative had sent samples to him and had provided the necessary specifications in writing.

The abbreviation "B/L" refers to the ocean "bill of lading," an important document discussed later under "Documenting."

The pro forma invoice is signed by the general manager or another key employee of the cooperative. No provision is made for signature by a representative of the importing firm.

Sometimes the importer will accept the terms of a pro forma invoice and commit himself, via cablegram or letter, to a purchase on those terms. In other cases, he 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 seller.[17] An export order often is used when there has been no prior agreement with respect to such matters as specifying the documents to be handled by the buyer, foreign bank reference, U.S. trade references, and the form and nature of markings on each shipping container that are required by the buyer.

Sales Contract

Each export sale should be confirmed in writing in some manner. Both buyer and seller must be firmly committed. A special sales contract (or agreement) 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 (Illustration 5). It must be labeled as a sales contract, however, and 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, more detail is necessary. Sometimes, for example, provision should be made to compensate for an impending change in the relative value of the U.S. dollar and the basic unit of a foreign currency.

If the buyer has had limited experience with imports of American agricultural commodities, or is rather new to the trade, it may be desirable to provide greater detail in the sales contract. For example, in a sale on c.& f. delivery terms, it might be desirable to state that the buyer will obtain and pay for the marine insurance. The time and place at which ownership transfers from seller to buyer also should be specified. For example, in a c.& f. sale this normally will occur when the commodity is unloaded over the ship's rail.

The other terms of sale—commodity specifications, packing, payment, shipment, documents—might 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 happening resulting from the forces of nature or from unforeseen human acts; these would include, but would not be restricted to, storms at sea or at port, shipwreck, strikes, riots, civil commotions, and acts of war.

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[17]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, and thus simplify internal handling by the exporter's plant and office employees.

The sales contracts used in the international grain trade involve one of three basic forms, although an exporting cooperative may develop its own form to meet special circumstances.[18] Many cooperatives exporting raw or processed foods usually have much less detailed and technical documents than those used in the grain trade. This is due, in part at least, to the fact that a shipment of grain may involve millions of dollars and many buyers.

It is customary in most parts of Western Europe to have the sales agreement expressed in English. In other countries, 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. Not only do languages differ but also their usuage; for example, not all Spanish words and phrases have the same meaning in all of the Latin American countries in which Spanish is the principal language.

Sometimes misunderstandings, or accusations of noncompliance with the terms of a sales contract, lead to presentation of a case for decision by an arbitration board. There are regular procedures and structures for cases involving grain or cotton.

Problems also may arise with respect to other agricultural commodities. If, for example, a shipment of dry onions arrived in poor condition at the Port of Rotterdam, Netherlands, the exporting cooperative might accept an adverse report (teletyped or cabled) by the importer. In other instances where the reason for product deterioration was not known, or there was doubt concerning the extent of product loss, the exporter might employ a "licensed surveyor" at Rotterdam to make a separate, firsthand check on the quality of the product.

The procedures for resolving misunderstandings and disagreements between buyer and seller vary greatly according to circumstances and the individual buyer and foreign country involved.

In any sales contract (or agreement) 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.

Receiving Payment

The U.S. dollar has been weakened by inflation, two devaluations, and by upward revaluations of some foreign currencies, notably the West German mark and Swiss franc. It does not occupy the paramount position it had for about two decades after World War II. Yet it still is one of the strongest currencies in the world and a highly acceptable medium of exchange. Most commercial exports of U.S. agricultural commodities are made for payment in U.S. dollars.

In every export sale it is desirable to specify that payment is to be made in U.S. dollars, if this is the currency acceptable to both parties. There are other countries, including Canada, that use the word "dollars" in their monetary systems, and still others that use the dollar sign ($) to denote units of their currency, such as pesos. Whatever method of payment is agreed on, chances for misunderstandings may be reduced by adhering to quotations such as this: "U.S. $10,000.00."

From the standpoint of an exporter, the simplest and fastest method of obtaining payment for commodities sold for export is for a foreign buyer to pay cash in advance. The disadvantages for the buyer are so great, and apparent, that sales of agricultural commodities are rarely made on this basis, except to Mid-East destinations.

Consideration will be given here to six basic methods of payment: consignment, joint account, open account, cash against documents, draft, and letter of credit.

As in the case of the delivery term of sale, the payment term of sale sometimes is

[18]See p. 15 of reference cited in footnote 5.

used to describe a sale. For example, a sale made on the basis of the consignment payment term may be called a "consignment sale" in the trade.

Consignment

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, his expenses, his commission, and the net 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 to cover his transocean freight. Conversely, for the importer this is a low risk situation. He cannot lose money except under extraordinary circumstances where the receipts from his sales are less than his expenses.

Despite the inequality in risk-sharing, this method of payment is common for certain commodities and markets. For example, a U.S. cooperative wishing to initiate sales of fresh produce to Western European countries will find it difficult to obtain better terms, especially for a trial shipment. Even the dependable buyers of produce there are accustomed to buying on a consignment basis from many shippers in other countries.

Joint Account

In a "joint account" sale, the exporter is guaranteed a specified minimum price at a certain delivery point, and all net proceeds received in excess of that price are divided equally between the exporter/seller and importer/buyer.

For example, the seller will calculate the price that he feels he should receive c.i.f. port of destination. Then the importer will guarantee payment at that price or a lower price. Later, the sale is made and the net proceeds equal the gross proceeds of sales minus (1) certain expenses involving payments to third parties (such as import duty, customs charges, handling at dock, and cartage to importer's warehouse), and (2) the amount guaranteed to the exporter. The net proceeds are divided equally between exporter and importer.

In this manner the principal risks (excluding that of product loss due to quality deterioration) are shared by the seller and the first buyer. From the standpoint of the seller, this is considerably less risky than a consignment sale.

The importer has a strong incentive to resell the commodity at the highest possible price since the amount of the gross value at resale will determine whether he will have a net gain on the sale and, if so, how much it will be.

As in the case of consignment sales, the joint account term of payment is used in sales of fresh produce to some West European importers.

Open Account

Under the "open account" method of payment, the commodities are shipped to the foreign importer, he takes title to them according to the delivery term of sale, and 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 makes an interest-free loan for the value of the shipment from the time of delivery until payment is made.

This payment method is used sparingly in sales of processed food, and only in sales to established buyers with very high ratings for credit and performance. It is considered too risky for most export sales, particularly to buyers located in foreign countries with unstable currencies or governments.

Cash Against Documents

The C.O.D. or "collect on delivery" method of payment which is often used in domestic trade has an adaptation for use in international trade. A relatively small U.S. exporter working with an export agent who has close personal contacts and experience with foreign buyers may rely on the agent to select buyers, with exceptionally high credit and performance ratings, to whom sales can be made on the basis of "cash against documents."

Instead of using a "sight draft" (as discussed next), the sales offer and agreement 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 and certain other documents are received at a bank designated by him.

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

This method of payment is less risky than a consignment, open account, or joint account sale, but there may be more risk for the exporter than if a draft and/or a letter of credit is used.

The "cash against documents" term of payment has been used successfully by some cooperatives in sales of raw and processed foods to carefully selected importers in the northern and central countries of Western Europe. However, it is not the best alternative for use in sales to most buyers in most foreign countries.

Draft

A draft (also called bill of exchange) is a financial document prepared by the exporter ordering the foreign importer to make prompt payment to a designated bank for the commodities shipped. It is a "clean draft" if the documents ordinarily accompanying a shipment are not attached, and a "documentary draft" if they are attached.

A "sight draft" is payable when presented to (sighted by) the importer.

A "time draft" is payable after the period of time indicated in the draft; for example, 30, 60 or 90 days after sight. This period, of whatever length, is known as the usance; it begins as soon as a representative of the importer or the importer's bank has signed his name on the face of the draft, along with the date, name of the firm, and the word "Accepted." When the time draft has thus been accepted, it becomes known as an "acceptance."

The usual procedure is for the seller to send the draft, with shipping and collection documents, to the importer's bank. Included among the documents is the original bill of lading; it is endorsed by the shipper if the "negotiable" form of this document is used. The bank notifies the importer that the documents have been received. When a sight draft is used, the buyer must promptly pay to his bank the amount of the draft; the bill of lading then is given to him by that bank and he can take possession of the shipment. In case of a time draft, the buyer need only "accept" it to obtain possession of the commodity; payment is made later in accordance with the time specified.

This method of payment—especially use of the sight draft—long has been commonly used for exports of bulk or packaged foods to importers in the northern portion of Western Europe. The risk for the exporter is less than for a consignment, open account, joint account, or cash against documents sale, but more than for a sale involving a letter of credit. For some buyers in the countries just mentioned, it usually is not considered necessary to incur the additional cost and "red tape" of a letter of credit in dealing with established importers with high reputations. This is not the case in most countries or for most buyers, however.

For a small shipment, the U.S. bank's collection fee may be covered by the seller's export price quotation. For most shipments, however, it is necessary to note in sales offers and on drafts that the U.S. and foreign banks' collection fees are to be paid by the buyer.

Letter of Credit

A letter of credit is a financial document providing for payment for commodities purchased. It is issued by a foreign bank at the request of the buyer and in favor of the seller. It is a promise by that bank to pay within a specified time, if certain specified conditions are met, the money due upon receipt by the bank of designated documents.[19] Preferably, it should be irrevocable; then the buyer cannot alter the terms in any way without agreement by the seller. It also should be confirmed for the seller by a U.S. bank; the latter then has accepted responsibility to pay the seller as soon as documents are received—without regard to the financial condition of the buyer or foreign bank at that moment—and this assures prompt payment to the seller.

A "revolving" letter of credit is designed to cover numerous sales and shipments over a period of time rather than a single sale.

It is very important that an exporting cooperative read a letter of credit very carefully. Management must be certain it understands each condition that must be met, and be certain that the cooperative can and will comply with all requirements.

Sometimes it is desirable to avoid use of a precise figure. For example, it may be impossible to guarantee delivery of an exact number of bags or other units. In such case, it is desirable to add the modifying word "about." The buyer then will have to pay for the quantity actually received, and cannot use the letter of credit as a means for refusing payment. If the market price had dropped between the time the letter of credit was accepted and the time of delivery, the importer might be tempted to refuse the shipment on the basis that a precise quantity provision had not been adhered to exactly.

Use of a letter of credit is the customary method of payment for most export sales of U.S. agricultural commodities. Because it reduces risk to a minimum for the exporter, it is used in nearly all sales to—for example—the Orient, Latin America, the Mediterranean area, and to developing countries generally. It also is often used in sales to buyers in all countries, however.

Local custom is an important factor. The large, well-financed, reputable Japanese trading companies often use letters of credit in making their purchases. It also is possible, in some instances, to make sales to the U.S. offices of some of these companies. In that situation, the bank preparing the letter of credit may be located in the United States.

Use of a sight or time draft is provided for in the letter of credit.

The collection charges or fees that the U.S. and foreign banks require for their services in handling letter of credit transactions are charged to the account of the buyer. To avoid misunderstandings, the buyer's obligation to pay these expenses should be stated in the sales offer, pro forma invoice, sales contract, and draft.

General Comments

The foregoing review of the six basic methods of payment for agricultural com-

[19]The kinds of documents that may be involved, and the significance of each, are discussed later under "Documenting."

modities describes the major characteristics of each. Directors and administrative employees of exporting cooperatives need at least this much information if they are to have a general understanding of the payment phase of the export business.

There are variations in application of some of these methods or terms of payment. For example, some countries do not permit use of sight drafts in association with negotiable bills of lading; in such instances, other arrangements will be necessary. Fortunately, information about such variations is available from some of the sources of technical assistance mentioned earlier.

Definitions of the payment terms also are subject to some variation. For example, a "joint account" offer might not provide for a minimum price guarantee to the exporting cooperative. It is, therefore, extremely important in every sale that both buyer and seller understand completely what is involved when a payment term is used in documents and written communications.

Export payment insurance may be needed to cover the risk that payment will not be received for commodities shipped. This is discussed later in the section on "Eximbank."

Financing

Financing requirements vary greatly according to the commodity involved, value of a shipment, the delivery term of sale, other terms of sale, the length of time between loading for export and receipt of payment, and the country and buyer to whom delivery is made.

Various commercial and noncommercial sources of funds are available for financing exports. It sometimes is a challenge to select one institution or agency among many because of differences in services offered or interest rates and other lending terms. In any case, the international financing unit must have staff workers with specialized expertise.

The subjects of credit investigation and method of arranging for receipt of payments are a part of the total financing picture, but have been discussed previously in this report.

Business Institutions

Many farmer cooperative leaders think first of the cooperative banking system when their associations need to borrow money. They turn to their district bank for cooperatives for the financing of domestic facilities and operations needed to move agricultural commodities from farms to U.S. export loading ports. Some associations use the same lines of credit to finance both domestic and export-related inventories and receivables.

A study group now is exploring possibilities for establishing some kind of international financing facility within the cooperative banking system. Some day the banks for cooperatives may play a financial role in export marketing comparable to the one they now have in domestic marketing.

Some of the regular commercial banks currently are an important source of export funds and technical assistance. According to a recent estimate by the U.S. Department of Commerce, more than 200 American banks have international banking departments. These banks have specialists concerned with selected foreign countries and commodities. They also are a part of a banking network that involves correspondent arrangements with smaller banks in this country. In this way, the expertise of the large banks is available to practically all cooperatives. However, some small correspondent banks may not be able to provide needed services as quickly and efficiently as large banks serving large-scale exporters.

Larger U.S. banks have correspondent relationships with foreign as well as domestic banks. In recent years, there also has been a substantial increase in the number of overseas branches established by the very large U.S. banks engaged in financing international trade.

In addition to banks, at least two more kinds of business firms may be involved in export financing. A "factor" (or "factoring house") may lend money with the exporter's account receivable as security, or may purchase an account receivable. It charges a fee for either service, of course.

Some export management companies (as discussed earlier under "Indirect Sales") may handle the financing for a U.S. exporter. The company will make prompt payment for a shipment that it arranged, and will bear the risk of obtaining reimbursement from the foreign buyer.

CCC Export Credit Sales Program[20]

The CCC Export Credit Sales Program (GSM-4) is administered by the Office of the General Sales Manager (OGSM), an agency in the U.S. Department of Agriculture. Financing is provided by the Department's Commodity Credit Corporation (CCC).

This program is designed to help U.S. agricultural exporters meet foreign competition in both established and developing markets by supplementing rather than replacing private financing. The objective is to expand commercial sales rather than provide aid to foreign countries. Sales are financed to countries which are good credit risks but unable to meet all their needs with cash purchases. Financing may be provided for as long as 36 months, although the basic limit is 12 months.

Payment is guaranteed by an irrevocable, commercial letter of credit from a U.S. bank or an approved foreign bank. In the latter case 10 percent of the amount of money involved must be confirmed by a U.S. bank for commercial risks. The letter of credit must cover the amount being financed by CCC, plus interest at commercial rates. Interest rates are reviewed and announced monthly. In August 1976, the interest rate was 8 percent for U.S. bank obligations, and 9 percent for foreign bank obligations.

At the time of shipment, CCC purchases from the exporter the acount receivable covered by the financing arrangement. The exporter receives cash. CCC obtains payment by drawing on the letter of credit. Commodities eligible for financing are announced monthly. For August 1976 eligible commodities were:

Barley, beef and dairy breeding cattle, breeding swine, corn, cotton, cottonseed oil, dry edible beans, dry edible peas, eggs (dried, frozen and canned), grain sorghum, hog grease, nonfat dry milk, oats, peanut oil, poultry (canned and frozen), raisins, milled and brown rice, soybeans, soybean meal, soybean oil, edible soy-protein, sunflowerseed oil, tallow, tobacco, wheat and wheat flour.

Exports under the CCC Credit program peaked in fiscal year 1972-73 at $1.1 billion. Wheat then accounted for over half the total, while corn and cotton were also exported in large quantities.

The program was cut back during the next two years, since it was possible to sell most of the U.S. exportable supply for cash. The program was accelerated in December 1975 as a result of record harvests in the United States. The value of exports in fiscal year 1976 reached $621 million, most of which was exported in the last half of the year. A substantial volume of credit commitments were not shipped by June 30, 1976, and it

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[20]Cooperatives interested in participating in this program should request further information from: Office of the General Sales Manager, U.S. Department of Agriculture, Washington, D.C. 20250.

is expected that program exports in calendar 1976 will equal or exceed the 1972-73 record. Exports under the program in fiscal year 1976 were as follows:

	Million dollars
Wheat and Flour	162.5
Rice	21.9
Feed Grains	37.8
Soybean/meal	25.0
Vegetable Oil	33.4
Tallow	10.1
Cotton	244.9
Tobacco	81.0
Other Commodities	4.7
Total	621.3

P.L. 480 Export Program[21]

Another program for which the Office of the General Sales Manager (OGSM), USDA, has administrative responsibility is the "P.L. 480" or "Food for Peace" program. Public Law 480, the Agricultural Trade Development and Assistance Act of 1954, as amended, authorizes foreign sales and donations of U.S. agricultural commodities.

Title I of P.L. 480 provides for sales of agricultural commodities to friendly countries on concessional terms. Title II authorizes donation of agricultural commodities to needy persons abroad.

Title I (concessional sales). An agreement pertaining to purchase of quantities of selected agricultural commodities by a foreign government is reached between that government and the U.S. Government. OGSM represents the U.S. Government in assisting and supervising completion of the purchase and export of the commodities.

The U.S. Government finances each purchase. Other than that, it is a normal commercial transaction between the importing government and U.S. suppliers. The suppliers are paid in U.S. dollars.

USDA publicly announces sales agreements and purchase authorizations for the commodities and quantities involved. Announcements are released to the press, potential suppliers, and other interested persons. After seven days, the foreign government can begin to purchase through either tenders or negotiations. Tenders (requests for bids) contain detailed specifications as to product(s), quantities, and terms of sale. The tender also will indicate whether the purchases are to be made through an agent or by a foreign governmental purchasing commission.

A cooperative (or other domestic supplier) can offer a bid in response to the tender. The foreign government or its agent will sign a contract with the successful bidder or withdraw its tender. Only those agricultural commodities for which there are sufficient supplies, as determined by USDA, may be purchased for export under this program.

In 1975 the value of the agricultural commodities exported under the Title I program was $924 million. This was almost double the 1974 figure. Wheat accounted for 56 percent of Title I exports in 1975 but only 17 percent in 1974. Rice accounted for about one-third of Title I exports in 1975 but more than half the total in 1974.

Bangladesh was the major recipient of Title I exports in 1975. South Vietnam was the largest recipient in 1974.

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[21] Ibid.

Title II (donations). Two USDA agencies are significantly involved in the Title II program. OGSM is involved in the overall programming process, as well as arranging ocean transportation for some shipments. The Agricultural Stabilization and Conservation Service (ASCS) is responsible for purchasing commodities and forwarding them to appropriate U.S. ports.

Agency for International Development, U.S. Department of State, has primary administrative and programming responsibility for the Title II program. Distribution of Title II commodities in recipient countries is made through U.S. nonprofit voluntary agencies, international organizations such as the World Food Program, or governments of the recipient countries.

After a Title II program has been approved by the U.S. Government, ASCS issues a detailed tender (offer to buy) for a given commodity. All domestic sellers, including farmer cooperatives, may submit bids to ASCS; a contract is awarded by ASCS to successful bidder(s). The seller then delivers the specified quantity of the commodity, in accordance with product and packaging specifications, to a loading port designated by ASCS. Ocean transportation is arranged by OGSM, a voluntary agency's freight forwarder, or the World Food Program shipping agent.

Principal commodities (value basis) exported under Title II in fiscal year 1976 included bulgur wheat, blended food products, nonfat dry milk, and wheat flour. The value of total donations under Title II was $247 million in FY 1976; about 32 percent of this volume went to India.

Eximbank

The Export-Import Bank of the United States (Eximbank) was established in 1934 as an independent agency of the U.S. Government. It assists in financing exports from this country on terms that are competitive with those offered through government-supported programs in the principal competing countries.

The following appears on pages 3 and 4 of "What is Eximbank?," a 6-page leaflet issued by the bank in November 1975:

"*Direct loans.* In a typical export transaction under this program, the borrower will pay at least 10 percent of the cost of the United States export in cash. Eximbank will finance from 30 percent to 55 percent of the cost at an interest rate between 8¼ percent to 9½ percent. The balance will be financed by commercial banks at prevailing market rates, sometimes with and sometimes without Eximbank's guarantee, depending on the commercial bank's and Eximbank's analysis of the risks involved. When there is no direct credit involved, the Bank may guarantee as much as 85 percent of an export transaction. Under this combination of Eximbank funds and private source funds, the effective interest rate to the foreign buyer for the U.S. purchase ranges from 8¼ percent to 10 percent. Disbursements of Eximbank funds are made to the U.S. suppliers. No funds leave the United States. All repayments, with interest, are made by the foreign borrower in dollars in the United States.

"*Guarantees.* Eximbank provides guarantees, for a fee, to U.S. commercial banks financing a United States export sale. These guarantees protect the commercial bank, without recourse to the U.S. exporter, against failure of the foreign buyer to pay due to commercial or political reasons.

"*Insurance.* Foreign Credit Insurance Association (FCIA), a group of about 50 of the nation's leading insurance companies, in conjunction with Eximbank, provides insurance cover to U.S. exporters on credit extended for their overseas sales. This insurance, for which a fee is charged, protects the U.S. exporter against loss due to commercial or political reasons. The insurance program is widely used by small businesses to assist in the financing of their export sales. The insurance and guarantee programs almost always support smaller transactions and account for well over half of all financing authorizations supported by Eximbank."

A commercial risk arises from the possibility that a buyer will fail to pay for commodities he has received. A political risk arises from the possibility that a foreign government will take an action that interferes with payment by the buyer. Such risks are much greater for sales to buyers in certain countries than for sales to buyers in politically stable and economically strong countries. The FCIA payment insurance program guarantees payment for shipments to even the high-risk countries.

General. In fiscal year 1975, Eximbank's gross authorizations for loans, guarantees and insurance policies totalled $12½ billion, based on export value. More than one-quarter billion dollars of this total, much of it insurance, involved exports of agricultural commodities. Loans and medium-term guarantees were made for exports of cotton valued at $81 million and tobacco valued at $8 million.

Other Agencies

Various other agencies may provide assistance in financing international trade. Whether they finance U.S. exports or foreign imports, these agencies are a part of the total picture.

An informative table (not reproduced here) identifies some of the principal agencies and compares their basic purposes and operations.[22] The table includes information about several agencies already discussed here, omits reference to the CCC and P.L. 480 programs, and adds information about several agencies not previously mentioned herein. The table is organized under the following captions:

- United States Agencies:
  - Export-Import Bank
  - Agency for International Development
  - Overseas Private Investment Corporation
- International Agencies:
  - International Finance Corporation
  - International Monetary Fund
  - World Bank
  - International Development Association
  - Inter-American Development Bank
- Private Agencies:
  - Foreign Credit Insurance Association
  - Private Export Funding Corporation

Not all of the above agencies are likely to be involved in financing cooperative exporters, but some of those financing purchases by foreign governments or individuals conceivably could underwrite purchases of U.S. cooperative products.

Farm exports under the Agency for International Development (AID) program reached $202 million in 1975, the highest for 17 years. Shipments of soybeans to Israel accounted for about two-thirds of the total.

Shipping

Inland transportation from a cooperative's loading point to a U.S. port is arranged in essentially the same way as it would be for a domestic sale. There are some differences, however. For example, there may be a special export rate for shipping via rail to a specified ocean port. In some cases, a through bill of lading may be

[22] Washington Agencies that Help to Finance Foreign Trade. Bankers Trust Company, New York, N.Y., pamphlet, 27 pp.; see 3 unnumbered pages inside front cover. Seventh edition, June 1974.

arranged to cover shipment by rail from the inland loading point to a destination in the Orient; this can reduce the ocean freight rate and eliminate handling costs at the U.S. loading port.

The bill of lading also may carry additional information. Included are the export markings, last permissible arrival date at the loading port, and a request for the carrier to telephone the cooperative or its representative when the shipment arrives at the loading port.

Transocean shipping brings new challenges. Depending on circumstances, a shipment via ocean carrier may be a fairly simple or quite complex operation.

The words consignor and consignee sometimes are confusing to persons such as cooperative directors who have responsibilities arising from export programs but who are not involved in the operating details. The "consignor" is the one who makes the shipment and the "consignee" is the one to whom the shipment is made.

In this section on "shipping," the discussion will center on transocean transportation via surface carrier. This is, of course, the primary mode used for exporting most agricultural commodities. Persons in the trade recognize that air transport has special advantages in exporting highly perishable commodities with high unit values. Fresh strawberries are a notable example. This means that this mode of transportation should not be overlooked by cooperatives who may benefit from use of it.

Even though the subsequent discussion centers on transport via oceangoing vessel, much of it is pertinent to transport via air.

Forwarding

A "foreign freight forwarder" acts on behalf of other persons in sending onward a commodity moving in international trade.[23] When used in reference to exporting, the term always refers to a firm located in the United States.[24]

The foreign freight forwarder is a key link in the export marketing chain. He provides information to the exporter about foreign market regulations and practices, indluding packaging and labeling requirements; assists with domestic and international transportation arrangements; and assists with preparation and handling of various documents. He may also arrange for marine insurance and suggest sources of financial assistance.

A competent foreign freight forwarder helps the exporter move his commodity efficiently. To do this, he must know exactly what is expected of him. Following discussion of a proposed shipment, the exporter should prepare a set of "shipping instructions." This set may be provided by letter or on a printed form. It enumerates the documents the freight forwarder is to prepare, the services he is to perform, and the manner in which the commodity is to be handled and stowed by the carriers for inland and overseas shipment.

The freight forwarder may respond with a completed form indicating "acknowledgement of shipping instructions."

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[23]Many persons with little or no export experience incorrectly interpret this phrase to mean "a foreigner who forwards freight," rather than "a forwarder of foreign freight." A much more descriptive term would be "international-freight forwarder." Unfortunately, "foreign freight forwarder" is the term universally accepted in the trade, and this publication is not an appropriate medium for effecting an improvement.

[24]When a commodity exported from the United States is imported into another country, and the U.S. exporter needs assistance in moving the commodity from the foreign port to an inland destination, the exporter may employ the services of a foreign freight forwarder located at the foreign port. U.S. exporting cooperatives seldom have responsibility for delivering a commodity to an inland point, however.

As was discussed earlier in the section on "Estimated Costs" under "Pricing," the exporter pays the foreign freight forwarder's fee and costs.[25]

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 most cooperatives, there is no substitute for the foreign 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).

Many of the considerations involved in these two steps are itemized in Illustration 2 on a previous page. That illustration would serve as a basis for developing the terms of the final sales contract. Each specification in that agreement would have to be met during the packaging operation.

Special labels with information expressed in a foreign language rather than English, and weights according to the metric system rather than in ounces and pounds, might be needed on some consumer-size packages and even larger units. Most of our foreign customers are in nations using the metric system; U.S. exporters are being required to use those weights and measures to an ever greater extent.

Both the export package and the outer container (for commodities for which both are used) should be designed and filled with careful consideration being given to holding product losses to a minimum during shipment. Causes of such losses include excessive movement of the product within the container and too much weight on the product—as for fresh apples and peaches, for example. 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—for 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 marketing places extra stress and strain on 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 his shipping mark. Standard symbols and foreign phrases help ensure proper handling. A foreign freight forwarder can help a cooperative make sure that all necessary markings are made in the proper form.

A special "packing list" must be prepared. This will be discussed later under "Documenting."

Transporting

Transporting agricultural commodities within the United States requires special

[25]In the case of a sale made f.o.b. seller's plant, the foreign buyer would arrange for inland transportation of the commodity and pay the freight forwarder's fee and expenses. However, this kind of sale is so untypical of food exporting that it was not even mentioned in the previous section on "Delivery Terms of Sale."

knowledge.[26] Transporting them across an ocean by air or sea is also a challenging experience.

As noted earlier, a competent freight forwarder can greatly simplify transocean transportation for a shipper.

In domestic marketing the word "freight" usually refers to the *quantity* being shipped; in international trade it usually refers to the *cost* of a shipment. For an oceangoing shipment the "freight" is determined by multiplying the weight of the cargo, in terms of long tons (2,240 pounds), by the rate per long ton.

It is not economically feasible to have adequate cargo space available at all times and places to transport the hundreds of commodities and thousands of shipments moving in international trade. Yet there are critical problems for shippers when there is insufficient space. These are some of the problems:

1. In many instances, space must be "booked" (reserved) several months in advance of shipment to be sure it will be available when needed. This is particularly difficult for shippers of perishable agricultural commodities since they do not know exactly when or how much product there will be until the harvest is completed.

2. At times there may be a surplus of one kind of shipping space but not enough of the kind needed. For example, there may be adequate space for general cargo but very little available for refrigerated foods or containerized shipments.

3. Delays in shipping may result in higher operating costs due to larger plant inventory charges, greater port storage charges, increased losses due to spoilage in transit or pilferage at a port, and other factors not under the complete control of the shipper.

One way to gain control of shipping space, and to cut costs by consolidating shipments, is to own oceangoing vessels. Zen-Noh, a Japanese farmer-owned cooperative, has done this on a large scale. U.S. cooperatives generally will have to be much larger than they are today before ownership of oceangoing vessels will become economically feasible. Another alternative is to lease vessels for long periods. More U.S. co-ops are likely to venture into this business in the future, but it takes large amounts of product and capital.

The basic alternatives with respect to selection of an oceangoing vessel are these:

1. *Common carrier.* A common carrier is a steamship line that provides regularly scheduled service between selected ports, and publishes uniform freight rates and contract conditions.

A group of common carriers serving the same trade route(s) may form a shipping *conference*. Member lines set uniform freight rates and establish certain trade practices. An exporter who contracts with a conference may obtain a lower shipping rate than if he did not have a contract, but he is committed to ship via conference line vessels all or most of the cargo he has that travels along the trade route(s) served by the conference.

2. *Private carrier.* A private carrier—or "tramp" ship—is a vessel without fixed itineraries or schedules. Its owners negotiate contracts with individual shippers.

Common carriers are the usual choice of cooperatives exporting fresh produce and processed foods, whereas grains and soybeans are transported by private carriers. Cooperatives using common carriers may use conference or nonconference lines. The choice in each case is based on the individual situation, the pattern of the cooperative's

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[26]An inland transportation study of special interest to exporting cooperatives outlines coordination of export grain shipments to the Gulf with northbound shipments of farm supplies from the Gulf: Reed, Charles E., Byrne, Robert J., Ackley, Richard M. Coordinating Transportation to Reduce Costs: Possibilities for 14 Regional Cooperatives. Farmer Cooperative Service, U.S. Dept. of Agriculture, FCS Service Report 132, 49 pp. June 1973.

exports over a period of time, or the general availability and efficiency of service offered by the two kinds of carrier.

In most cases an exporting cooperative will "book" space (sign a "booking contract" to reserve space) for a cargo of given size on a specific vessel. As noted earlier, this is an essential step since space must be available at a scheduled time.

In other cases—notably for grains and soybeans—a cooperative will charter (lease) an entire ship for a voyage or specified period of time.

To export in shipload quantities, rather than in smaller quantities, involves both opportunities and risks for cooperatives selling on the basis of either the c.i.f. or c.&f. delivery term. Since shipload deliveries have been discussed at some length in another report[27], special attention will not be given to them here.

There are significant variations in handling less-than-shipload quantities.[28] Some commodities may go in ordinary dry cargo space, others in "reefer" space (refrigerated holds), others on barges carried across the ocean on "mother" ships, and still others in van containers—either refrigerated or unrefrigerated—on specially designed container ships or on the decks of conventional ships.

Potential causes of product deterioration or loss were mentioned earlier under "Packing." The same factors need to be considered when transportation arrangements are made.

Transporting the commodity from a U.S. port to a foreign port may not end an 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 what are called "foreign trade zones" or "free trade zones." Such a zone is a designated area in which quantities of a commodity can be stored, processed or exhibited without payment of customs duties. Sometimes it is possible to ship a large volume of a commodity to such a customs-privileged location and then reship smaller lots to buyers in other markets. In this way, both the cost of shipping and the payment of customs duties can be kept to a minimum.

Insuring

On sales for overseas delivery, cargo insurance is an important consideration. A sale on c.&f. delivery terms may be preferable to c.i.f. if (1) the buyer has a low-cost "open" (or "blanket") policy to cover all his purchases, and (2) the exporter would have to obtain a special policy for the one shipment. Someone must purchase the "marine insurance" coverage, however.[29]

The exporter must obtain transocean insurance coverage when he makes a sale on c.i.f. delivery terms. He has essentially three choices: (1) Obtain a policy covering the single shipment, (2) obtain an open policy to cover all his shipments during a given period, or (3) arrange to have his shipment(s) covered under an open policy held by the foreign freight forwarder.

The first two choices involve dealing with an agency handling marine insurance.

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[27]See pp. 6-13 of reference cited in footnote 5.

[28]A study of special interest to cooperatives exporting fresh produce: Hutchinson, T. Q., Hoffman, L. A., and Parlett, R. L. Improving the Export Distribution System for Fresh Fruits and Vegetables. Economic Research Service, U.S. Dept. of Agriculture, Marketing Research Report 1027, 84 pp. Aug. 1974.

[29]The term "marine insurance" applies to cargoes transported by plane as well as those in ocean-going vessels.

The subject is complicated and an experienced insurance agent can help select the kind of coverage needed.[30]

Documenting

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 another significant way; it is seen by two or more business or regulatory entities. For example, any or all of the following might view a document prepared by or for an exporter: foreign freight forwarder, U.S. Department of Agriculture, U.S. Department of Commerce, U.S. Customs, ocean shipping line, foreign government import inspection or control agency, foreign importer, foreign bank, and U.S. bank.

The word "documentation" sometimes is used to signify the preparation or use of international trade documents.

A few documents have been referred to previously in this report. Included were the following, in the order in which they were mentioned:

Acknowledgment of shipping instructions
Pro forma invoice
Export order
Sales contract
Sight or time draft
Letter of credit
Domestic bill of lading
Air or ocean bill of lading
Marine insurance certificate

Only the last two of the above documents will be included in the following discussion, but several other documents that were not mentioned previously will be described here.

Although a government license is not needed for exporting agricultural commodities, there is an important statement that must be included on each of several documents. This is the *destination control statement.* The purpose is to ban export or reexport of the commodities to certain countries. In early 1976, a suitable wording was as follows: "United States law prohibits disposition of these commodities to Cuba, North Korea, North Vietnam, South Vietnam, Cambodia, and Rhodesia." This statement, revised as conditions change, should appear on each of these documents: Bill of lading, commercial invoice, and shipper's export declaration.

Bill of lading. A bill of lading is a document that shows that the commodity described in the commercial invoice has been shipped and is in possession of the carrier. It will indicate whether the commodity has been received for shipment or has actually been loaded into a named vessel. An ocean or air bill of lading will be used, depending on the kind of carrier chosen.

There are two basic forms. One is the "negotiable" or "order" bill of lading. The original must be endorsed by the shipper before it is presented to a named foreign bank for collection. It is generally used with shipments involving use of sight drafts or letters of credit. A common routing is from carrier to U.S. foreign freight forwarder to exporter to bank to consignee.

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[30]Some technical marine insurance terms are defined in the appendix to the report cited in footnote 5. For example, see "general average" and "particular average" as defined therein.

The other form is the nonnegotiable or "straight" bill of lading. This must be sent by the carrier "straight" to the named consignee.

A "clean bill of lading" does not have any adverse notations made by the carrier relating to the condition of the commodity shipped. Normally only a clean bill of lading is acceptable.

The "destination control statement" must be on each bill of lading—domestic as well as for ocean and air shipments to foreign destinations.

One peculiarity of the ocean bill of lading is that there can be as many "originals" as the buyer requests. In the event there is more than one "original," extra care must be taken with respect to handling and distribution of all originals.

Certificate of origin. In some instances, an exporter may be required to present a certificate of origin. This is a document that certifies that the commodity originated in the United States. The principal reason for requesting this certificate is that it enables the importer to pay something less than the maximum import duty. This is possible, however, only where and when the commodity from the United States can enter at a lower rate of duty than that for the same kind of commodity from another country.

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, national origin of the commodity, mode of transocean shipping, vessel 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 also includes the name and address of the shipper and of the consignee (buyer or his agent), and reference numbers and date of sale. It is a request that payment be made.

If a letter of credit is involved in the sale, reference to the bank and pertinent number must be given.

Special requirements of the importing country must be met. For example, these may include a notarized signature of the exporter, or a visa clearance obtained from a resident consul of the foreign country.

Consular invoice. The consular invoice is a special document that may be required by a foreign government, especially one in South America, in addition to the commercial invoice. The information required is similar to that on the commercial invoice, but an official form is used and the information must be given in the language of the foreign country. It is then visaed by the resident consul of that country. Extraordinary care must be taken to avoid changes as well as errors.

Dock and warehouse receipts. A dock or warehouse receipt provides confirmation of delivery of the commodity to the designated location. In the case of a sale on f.a.s. or f.o.b. delivery terms, the buyer may request these documents in order to be sure the commodity will be on hand at arrival of an ocean or air carrier on which he has leased space.

Inspection certificates. An inspection certificate provides assurance to the buyer that the commodity met certain requirements prior to loading for export. There are several kinds of these inspection certificates. For example, a health certificate may show that a dairy breeding bull is healthy, a grain inspection certificate may indicate that a shipment of grain meets certain minimum standards, a phytosanitary certificate may assure the buyer that a shipment of fresh carrots is free from specified diseases, and a grade certificate may certify that the meat in a shipment of frozen, dressed broilers meets U.S. standards for a specified grade.[31]

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[31] Inspection operations of several Federal agencies were mentioned previously in the section on the "U.S. Department of Agriculture" under "Technical Assistance."

Other inspection certificates pertain to the area of production rather than the condition of the commodity itself. For example, a certificate may assure the buyer that a sow for breeding originated in an area free of hog cholera, or each root in a shipment of horseradish roots was produced in an area free of Japanese beetles.

Marine insurance certificates. In a sale on c.i.f. delivery terms the exporter must obtain marine insurance on the cargo shipped. The insurance certificates—usually two—indicate the kind and amount of coverage. They are negotiable and hence must be endorsed before they are submitted to a bank along with other documents.

Packing list. The export packing list is a detailed, informative document that must be prepared with care. It lists all packages and containers included in the shipment. These may include consumer-size and larger bags, boxes and cans, or bales, crates, and drums.

The list provides the net and gross weights of each package, the measurements of each package, and the cubic feet of space required for each package. It may be necessary to provide the dimensions and weights in terms of the metric system or some other system used in the foreign country of destination.

Shipping marks should be illustrated.

The packing list has two uses: (1) as a basis for calculating the cubic space required for shipping; this calculation is made by the exporter's shipping department or a foreign freight forwarder, and (2) as a checklist to be certain 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.

Shipper's export declaration. The shipper's export declaration is an official Federal Government form. It must be completed for every export shipment of every commodity. It serves as the export administration document for moving a shipment through U.S. Customs.

The commodity is identified on the form by a special "Schedule B" number that facilitates tabulation of information for statistical purposes.

The form provides for certain other information, including the kind and quantity of product, foreign destination, name and address of buyer and of seller, and the destination control statement.

Miscellaneous. There are other documents that may be needed. An example is a pier delivery permit to provide for use of a pier at a U.S. loading port. A competent foreign freight forwarder is familiar with all such documents.

There also are import permits and licenses, and foreign governmental reporting forms, that are the responsibility of the importer.

CONCLUSIONS

Continuing increases in (1) the number of people in the world, (2) the combined purchasing power of these people, (3) their ability to pay for commodities needed for varied and balanced diets, and (4) the production capability of American farmers, all suggest that our exports of many agricultural commodities will trend upward during the years ahead.

Increased export sales through all marketing channels mean greater net incomes for American farmers. This is the result of (1) raw or finished product prices overseas that are higher than domestic prices, (2) higher raw material prices in this country as a result of moving more of the supply off the domestic market, or (3) lower average farm production and marketing costs accompanying a greater volume of sales from farms at prices equal to or above the levels that otherwise would prevail.

Increased export sales through cooperatives can further increase monetary returns to farmer members of those associations. Cooperatives provide opportunities for farmers to share in the net margins of the export business.

Some farmer cooperatives have highly successful export programs. They have demonstrated that it is possible for cooperatives to be as effective in export marketing as any other kind of business entity. Nevertheless, most cooperatives would be well advised not to enter into export marketing—at least on an independent, solo basis. The kind, quality, or small volume of commodity; competitive conditions in foreign markets for that commodity; limited financial resources; lack of management capability to adjust quickly to the special challenges of exporting; or other factors may preclude development of a successful export business.

Yet the export market is a large and growing part of the total market for many agricultural commodities produced in this country. Sales to foreign markets may enlarge opportunities for increasing net returns to producer-members—and this is the ultimate goal of each farmers' marketing cooperative. Thus it surely is in the best interest of American farmers for more cooperatives to consider carefully their chances for earning and holding a part of the agricultural export business—and to act accordingly.

As we look at the written and unwritten records of the past, and the lessons learned, we can see that there are certain basic elements of success in exporting. Some are familiar to cooperatives with well-established domestic marketing programs. Others are unique to the export business.

As we look to the shadowed and partially uncertain future, we can see that there likely will be new opportunities for some farmer cooperatives to launch or to expand successful export marketing programs.

First, a look at the basic elements of a successful export program. Next, a look at some of the new export opportunities unfolding for cooperatives.

Basic Elements of Success

While conditions vary according to commodity, volume and market, certain elements of success must be considered by all exporting cooperatives. Others are of special concern to cooperatives exporting foods.

These basic elements should be considered before a cooperative decides to invest time and money in a new export program. They also may enter into periodic reviews of an ongoing program.

For All Cooperatives

These are the elements of success—expressed as positive actions or attitudes—that should be adopted by decisionmakers and staffs of all exporting cooperatives:

1. *Recognize basic business principles and management functions.* Like a domestic business, an international business must adhere to sound principles and practices. All management functions—planning, organizing, coordinating, motivating, and controlling—must be understood and performed efficiently. The cooperative's administrative staff must have the competence and authority to make important operating decisions, while the board of directors must maintain basic control of the business.

2. *Define legal responsibilities.* This must be done in writing before any kind of business function is performed. This applies to the articles of incorporation and bylaws of the cooperative and also to any legal documents—such as a sales agreement with a buyer—that arise from participation in the export business.

3. *Select economic objectives carefully.* Promotional and sales efforts should be focused on commodities and markets that have real export potential. The selection of a commodity depends in large part on the market to be served—and vice versa. Research

studies conducted by or for the cooperative can pinpoint export market opportunities for the commodities it handles. For each potential market, management needs to know the supply-demand situation, the nature of distribution channels, and local business customs and procedures.

4. *Commit necessary resources.* In the short run, it usually is desirable for a cooperative to enter into exporting very cautiously and carefully. In the long run, it will be necessary to devote considerable money and manpower to an export program if it is to operate successfully on a continuing basis.

5. *Acquire the special skills of export marketing.* Few cooperative members and staff-workers have the necessary training and experience to handle an export marketing program. The number of persons needed, and the number of work areas in which competence is required, will vary according to the size and complexity of the program. But expertise in exporting must be available in some way, at least on a part-time basis, for even the most limited program.

6. *Delegate administrative responsiblity.* In a small cooperative, the general manager traditionally serves as a "jack-of-all-trades," but in an association with a sizable export program, an administrative team is needed. This may include not only department heads for such functions as accounting, processing, transportation, documentation, market research, and export sales but also a director of marketing.

7. *Remember that export sales are made to and by people.* Personal contacts between staffs of sellers and buyers are necessary to develop a high degree of trust, reliance, and understanding. As a result, errors in offers and misunderstandings about terms of sale can be minimized, and consummation of sales expedited.

8. *Complete necessary planning prior to each sale.* It is not possible to anticipate all problems that may arise in an export sale. But a thorough job of planning prior to negotiations can greatly reduce the number and impact of such problems.

9. *Allow flexibility in planning and operations.* This is the way to meet new problems and take advantage of new opportunities.

10. *Select dependable, financially sound, honest buyers.* Financial information should be obtained from banks and financial service institutions. Additional information with respect to a buyer's reliability for payment and performance should be obtained from other persons "in the trade." The ease or difficulty in making a selection tends to vary greatly from one marketing region to another.

11. *Expedite the flow of information to and from foreign markets.* A regular two-way flow of information between a cooperative and its foreign representatives and buyers will help build sales. The cooperative can report on changing supply conditions and respond promptly to inquiries from buyers. The foreign representatives and buyers can keep the cooperative informed about changing market conditions overseas. A continuous flow of market intelligence reports, to tell what is happening and what is likely to happen in a market, is a prerequisite for success on a large scale.

12. *Maintain uniformity in quality of product.* If the quality of a commercial shipment fails to equal or better that of an earlier sample shipment, it may be rejected by the buyer. It is costly to divert a commodity to another foreign market or to destroy it overseas. In all cases, a commodity sold for export customarily travels for a longer distance and time than a domestic shipment; opportunities for product deterioration are increased. Competition in many foreign markets is keen in terms of quality as well as price and service.

13. *Recognize and comply with quality, labeling and other requirements of foreign governments.* For example, some restrictions on pesticide residues and other chemicals in agricultural commodities going into West Germany and Japan have been particularly stringent. Cooperatives can and do meet such requirements, but import clearances are not automatic.

14. *Meet the special problems involved in international transportation.* Whether it ships by air or surface vessels, a cooperative engaged in delivering commodities overseas becomes involved in a world of transportation that differs from the domestic scene. Every opportunity to cut costs without impairing the level of service—whether booking space for a small shipment or chartering an entire vessel—affects chances for realizing a net margin on an export sale.

15. *Comply with the detailed provisions of each sales contract.* Foreign buyers usually are very particular about this. Any U.S. exporter must expect to live up to all terms of such contracts.

16. *Appraise, and reappraise, facility needs in the light of changing conditions.* For example, a country collection facility may be no longer needed. Or the feasibility of access to a certain deepwater port may change as the result of higher or lower rail or barge rates, or improved highways. It also may become practicable to own or lease storage space overseas to facilitate distribution of the cooperative's commodities when the total volume justifies relatively small and frequent deliveries to buyers.

17. *Conduct the export program as a continuing business.* All foreign importers realize that weather and other production factors cause fluctuations in supply. The truly dependable importers seek U.S. suppliers who are interested in maintaining overseas markets rather than just dumping excess supplies in times of domestic surplus. The buyer, as well as the seller, must have a net operating margin over time if he is to stay in business. This means that a U.S. cooperative interested in a continuing export program must not only have dependable sources of supply but also allocate a part of its volume to foreign markets when supplies are short.

18. *Attend to details.* Meticulous handling of details is necessary in any business, but it is crucial in exporting. There are more details to consider, and errors can be more costly because they are harder to rectify due to the distance and other factors involved. All export cost items must be checked and rechecked to make certain that none have been omitted or miscalculated when developing a sales offer. Also important are provisions of sales agreements, arrangements for product preparation for export, inland and international transportation, documents, financing, and insurance.

19. *Recognize that it is not possible to have a net margin on every export sale.* Management—which includes the board of directors as well as top administrative employees—must realize this. Some persons figure on the average for domestic sales but expect a net margin on every export shipment. It just doesn't work that way.

20. *Let the cooperative's members know what they get for their money.* Effective methods of communication are needed to inform members about the benefits, successes, and failures of their export programs. They do not need information on every sale, but they do need to know how exports fit into the total business of the cooperative.

For Food Cooperatives

Certain additional basic elements are involved in successful exporting of raw or processed food products. These elements have less bearing—or no bearing at all—on the exporting of bulk commodities. Here are some of the most important:

1. *Accept buyer's preferences, to a considerable extent at least.* These preferences may pertain to the composition or condition of the product, uniformity of the product, quality tests, the quantity of product in a bag or other package, kind of packaging, labeling of cans or boxes, and general way of doing business.

2. *Be an innovator.* New products, packaging, services, or methods of handling products can create or build business. It is necessary to meet changes in the marketplace and even to make changes. The general rule is to accept buyer's preferences; successful innovation is likely to be the exception—but it can pay off.

3. *Develop a product line.* In the short run, it may be well to begin in an overseas

market with a few carefully selected products. In the long run, a complete line of products may be best. For example, brand names for foods tend to be even more important in Western Europe than in the United States, so the advantages of a line of products are great in that market.

4. *Grant "exclusivity" to an importer, if necessary.* If an importer is to invest in the promotion of a given product under the U.S. cooperative's brand name, he wants reasonable assurance that he will be able to handle the sales resulting from his efforts. He wants to be the sole distributor for the branded product in a specified marketing area. However, exclusivity should not be granted to an importer who does not have regular contacts with many large-volume buyers in the foreign market's distribution system.

5. *Engage in overseas merchandising or followthrough.* If a cooperative can help an importer understand why its commodity is a "good buy" for him and for the ultimate users, it can help him make sales to those users. Some foreign importers and chainstore organizations are prepared to do a great deal with respect to advertising and merchandising foods. In some cases, the cooperative or its export sales representative must provide sales materials and general assistance with promotional campaigns. Some of our larger food exporting cooperatives participate in or actually conduct advertising campaigns in foreign markets. For a cooperative of any size, prompt shipment of commodities of the kinds and volume sold is a basic part of its followthrough to export sales agreements.

Some of the five elements just identified may be beyond the scope of operations of an individual cooperative. Not every cooperative is in a position to develop a line of branded food products, for example. Yet such instances present challenges for expanding markets by greater coordination among exporting cooperatives.

New Opportunities for Cooperatives

We do not know for certain what the future will bring, either tomorrow or 10 years hence. Yet planning well for the future is one of the principal keys to business success, in exporting as well as in domestic marketing.

The cooperatives that will export large quantities of agricultural commodities during the 1980's are existing associations whose leaders are planning for that period, or they will be new associations developed to meet new challenges.

Cooperatives now handle substantial shares of the export volumes for certain commodities, primarily those of relatively low volume in terms of the total agricultural export outflow. For cooperatives to earn greater shares of the total sales of the large-volume export commodities will require careful timing as well as attention to other facets of planning.

Individual Cooperatives

The basic challenge to an individual cooperative that seeks to become more effective in export marketing is the need to build an appropriate export structure. This requires weaving the interdependent elements of export marketing into an integrated economic unit. Consideration must be given to organizational structure, management, expertise, volume, facilities, and other such elements.

Few farmer cooperatives have been able to meet this structural challenge fully and effectively in the past. It will pose more difficult problems and be of increasing importance in the future.

Here are some specific ways a farmer cooperative can expand or improve its export marketing program during the next decade:

1. Capitalize on opportunities for greater exports of those agricultural com-

modities, such as feedmeals, for which our country has a comparative advantage in production and our export capability is great.

2. Export more highly processed foods—dried, frozen, or concentrated—to reduce air and ocean transportation costs, preserve quality from farm to table, and capitalize on our technological capacity.

3. Acquire greater expertise in transporting commodities between U.S. and foreign ports, both by sea and air, and in utilizing the diverse services available.

4. Seek ways to reduce transportation costs by decreasing the number of times a commodity is handled, the time spent in transit, and losses due to product deterioration and theft.

5. Begin or increase conversion of weights and measures information given on packaged goods from the English method to the metric system, and use applicable foreign languages on more labels and packages.

6. Devote more time and money to overseas market research, tailored to the individual needs of the cooperative, to center sales efforts in foreign markets that have great potential for commodities handled by the cooperative—and to avoid foreign markets without such potential.

7. Investigate possiblities for using foreign "free ports" and "free trade zones" to minimize duty payments and to facilitate distribution in small lots throughout an area after completion of an overseas shipment.

8. Develop closer working relations with foreign agents and brokers, with more representatives retained on an exclusive basis for specified commodities.

9. Develop relatively long-term sales contracts with selected foreign buyers to provide greater stability in terms of markets for the cooperative and supplies for the buyers, an economic justification for tailoring the cooperative's supplies to the needs of foreign markets, and some flexibility with respect to volume, prices, and monetary exchange rates.

10. Develop foreign subsidiaries to perform one or more marketing functions such as selling, storing and distributing.

11. Ship unprocessed foods or feeds to selected foreign countries and become involved in the processing function in those countries, where feasible.

12. Explore opportunities to increase sales to Western Europe and Japan, and also give greater consideration to opportunities in Latin America, Oceania, Eastern Europe, the U.S.S.R., the People's Republic of China, and the oil-exporting nations.

13. Allocate more time and effort to export marketing strategy, the art of devising and employing detailed plans or schemes to achieve specific goals in export marketing that will help maximize the net margin for the cooperative's total business.[32]

14. Provide more technical information about exporting to cooperative directors, not to cover all of the numerous technical details but to help them gain a basic understanding of the characteristics of the export trade and thereby help them make intelligent policy decisions.

Another important way for a cooperative to expand or improve its export marketing is to pool its resources with other farmer cooperatives to provide for joint handling of export problems and opportunities that are common to more than one association. This will be discussed in the next section of this report.

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[32]Market research provides a body of information that is used in creating marketing strategies in much the same way as cement, lumber and other building materials are used to construct a house. The factual ingredients provided by research, plus evaluations of alternative export techniques, are blended by management to form planned marketing strategies for functional areas such as pricing, selling, and financing.

Groups of Cooperatives

The basic challenge to a group of cooperatives that seeks through joint action to become more effective in export marketing is to overcome the present structural problem of fragmentation. It is not enough for groups of producers to join together to form cooperatives. The cooperatives must also join together to obtain a scale of operations large enough to permit producers to have effective representation in the marketplace. Most individual cooperatives do not have the volume, expertise, or organizational configuration needed to export effectively on their own. Many competing suppliers, in this country and others, now are of such size and capability that they dominate international trade in most major agricultural commodities.

The next decade may bring a substantial increase in the number and influence of export marketing programs that involve two or more farmer cooperatives. Economic pressure in the international marketplace will force development of larger and more effective cooperative export programs. Coordinated, joint efforts are one way to gain competitive strength.

Sheer size is never the sole determining factor for efficiency, but maximum efficiency in exporting usually is impossible without a relatively large volume of business. The leaders of many cooperatives need to consider carefully whether they can do a better job of export marketing collectively rather than separately. A study might lead to partial coordination of certain activities, a complete merger of associations, or something in between these extremes.

The term "specialized export cooperative" as used herein is defined as follows:

A specialized export cooperative is an association formed to provide specified export marketing services for the mutual benefit of its members. Each member of the association is a farmer cooperative that retains its corporate entity; it may act independently of other members with respect to any matter not directly related to export marketing. Control, risks, expenses, and net margins or losses are shared among members according to prior agreement.

The organizational structures of specialized export cooperatives vary according to the functions, services, commodities, and other factors involved.

Any multicooperative venture involves new risks as well as new opportunities. Many persons prefer to keep what they have rather than face further uncertainty. Yet the specialized export cooperative approach seems to be especially promising as a way to achieve further progress in export marketing by cooperatives.

Essentially all of the potential advantages of a specialized export cooperative have their genesis in the inherent advantages of one large volume of business over a group of unrelated and uncoordinated small volumes of business. Here are some of the most important:

1. Lower average costs per unit of product sold.
2. More and better services to foreign buyers.
3. Larger volumes of product available to buyers interested only in large volumes.
4. More packages, packs, and products available to buyers desiring a product line or different packs for different sales outlets.
5. Greater bargaining power in negotiating for top prices.
6. A more complete "package" of services for member associations, including such things as product quality control, export financing, cost accounting for export operations, legal services, market and marketing research, central billing and records for export sales, a joint brand, promotion and sales materials, overseas advertising campaigns, foreign market development activities, and procurement of shipping space—whether for space on a vessel or for chartering an entire vessel.
7. Lower total investment by producer-members of the member associations, in terms of money and manpower, to obtain efficiency in export marketing.

8. Ability to hire and maintain a competent staff with sufficient expertise in all phases of exporting.

9. Greater assurance of being able to continue to serve foreign buyers when product supplies are low, and to increase export sales when product supplies are high.

10. Wider product recognition among foreign buyers by using a single brand name.

11. Greater flow of market information—"market intelligence"—to and from foreign representatives and buyers.

12. Increased opportunities for constructing export marketing strategies that are technically sound and economically effective.

Potential disadvantages in a specialized export cooperative include the following:

1. Less local control over decisions made in export marketing of a member cooperative's products, as a result of delegation of authority to the export cooperative.

2. Less flexibility in a member cooperative's export operations.

3. Less opportunity to manipulate the size of an export staff and facilities to comply with changing domestic supply-demand conditions. (This can be a major consideration for a member cooperative interested in irregular foreign sales made to clear the domestic market of periodic surpluses. It is not a factor in a continuing export sales program.)

4. Loss of investment in a brand name owned by a member cooperative. (This assumes sale of branded products, previous use of a brand name for exporting by the member association, and a decision by all members to establish a single brand name for exports of products from all member associations.)

5. Loss of time that is required for continuous coordination of efforts by all participating member associations. A sense of frustration may develop as a result of the need to take enough time to reach a consensus before action can be taken.

The specialized export cooperative approach to exporting is no panacea and is not adaptable to all conditions. Leaders of each member cooperative must be convinced that they can do a better job of export marketing collectively rather than separately; there must be appropriate product mix; geographic locations of supplies, processing and storage facilities, transportation facilities, and port loading facilities must permit efficient handling; competent staff persons must be available; adequate sources of capital are essential; producer-members must be informed and in support of the proposal; each association must be prepared to bear its share of the financing and to supply for export a specified minimal percentage of volume during years of short supply.

Nevertheless, the potential advantages of a large-scale export business are so great that more cooperative leaders should consider formation of specialized export cooperatives.

There are various alternatives for development of a specialized export cooperative. For example, it might be formed to achieve one of the following objectives in export marketing:

1. To market one or more selected commodities; that is, either a single commodity, a number of closely related commodities, or a group of commodities that would comprise a complete product line of foods or feeds.

2. To serve a selected geographic area of the United States; that is, a production area, a State, a region, or a cooperative bank district.

3. To serve one or more selected foreign markets; that is, a large foreign port of entry, a foreign country, or a multinational foreign region.

To illustrate, here are two kinds of specialized export cooperatives that might be established for specific purposes:

1. A nationwide, cooperative export marketing program for a "line" of processed foods—canned, dehydrated, and frozen: As complete a line as possible would go to selected countries and outlets; these might include, for example, chainstore buyers in

Western Europe, at least one large trading firm in Japan, and large-volume buyers in Latin America. All products would be under one brand name and each label would be printed in the language of the country of destination.

2. A multiregional cooperative export marketing program for selected fresh produce such as iceberg lettuce, radishes, carrots, peppers, lemons, grapefruits, and apples: Selected commodities produced in various geographic areas of the United States, harvested at progressively later times as the distance from the equator lengthened, and marketed by farmer cooperatives, would be exported under one brand. The objective would be to provide continuing supplies to each country of destination during the months in which that country had little or no domestic production of the selected commodities.

In addition to considering specific possiblities such as those just mentioned, it also is desirable to consider more fundamental classifications of specialized exporting cooperatives. Three illustrations, designed to provoke thought and discussion among cooperative leaders and members, will be presented here. They pertain to a centralized export marketing cooperative, a centralized export service cooperative, and a centralized cooperative for intercooperative international trade.

Centralized export marketing cooperative. The term "centralized export marketing cooperative" will be used here to identify a kind of centralized export cooperative that would take title to the commodities supplied to it by other farmer-controlled cooperatives and perform the export marketing function. Such a cooperative could operate on a regional or national basis.

This export cooperative would have complete authority for all export sale decisions. Each member cooperative would be under contract to supply to the export cooperative a minimum proportion of its volume of commodities of the kinds needed for export.

The export cooperative would operate a pool for each major commodity. Under each pooling arrangement, an advance payment would be made to each participating cooperative, and later, the annual net margin would be prorated on a patronage basis.

Since the export cooperative could show either a net gain or loss, it would have the usual incentive to operate at maximum efficiency.

The export cooperative would select the foreign buyers, handle all negotiations with buyers, sign the sales agreements with buyers, make all decisions with respect to which quantities of available commodities would be used to ship to which buyers, bear the responsibility for preparation and handling of all documents needed, arrange for financing and marine insurance, and bear the risk involved in collection of payments for commodities shipped.

Each member cooperative would be responsible for procurement of supplies of the agricultural commodities needed, make sure they met the requirements of the foreign buyer and his government, deliver them to a designated domestic shipping point or to a U.S. air or sea port of embarkation, and bear the risk of a loss if the export cooperative failed to realize as much on sales as could have been made from foreign sales through some other intermediary or from domestic sales.

Centralized export service cooperative. The concept of a specialized, centralized, export marketing service cooperative also deserves consideration by groups of cooperatives with common needs and problems. Such an export cooperative could function on a regional or national basis and handle the export operations of local or regional cooperatives marketing selected commodities.

Cooperatives with leaders anxious to maintain maximum decisionmaking authority might find a centralized export service cooperative to be more attractive than an export sales federation or centralized export marketing cooperative. They could continue to serve domestic markets independently, in any case, but could use the export sales cooperative for sales to foreign markets in a way that would combine a maximum degree of independence with substantial benefits arising from greater efficiency in exporting on a coordinated basis with other cooperatives.

Unlike the centralized export marketing cooperative, the centralized export service cooperative would not buy and sell commodities. Instead, each member cooperative would act as seller/shipper. The member association would sign the sales agreement with the buyer, procure agricultural commodities as needed, make sure they met the requirements of the foreign buyer and his government, deliver the commodities to a designated domestic shipping point or to a U.S. air or sea port of embarkation, and bear the risk involved in collection of payments for commodities shipped.

The export cooperative would coordinate the export activities of all participating member cooperatives. It would provide export management services that would enable it to act, in effect, as the export sales department of each member cooperative. It would select foreign buyers, refer sales inquiries to members, handle negotiations with buyers, develop the final terms of sale between a member cooperative and a foreign buyer, bear responsibility for preparation and handling of documents needed, and arrange for financing and marine insurance when necessary.

The appendix consists of an illustration developed by the author to help in visualizing how such a program might be worked out in detail. It involves a hypothetical situation in which local and regional livestock associations could use a national export service cooperative. The basic division of responsibilities detailed there has application to opportunities for coordinated exporting of many other agricultural commodities.

Centralized cooperative for intercooperative international trade. Many farmer cooperative leaders have long been interested in establishing mutually beneficial trade between agricultural cooperatives in this country and those located in developed and developing nations. This has been difficult, although American cooperatives have been of significant help in aiding cooperatives to organize and serve farmers in developing countries.

Perhaps a bold new course of action merits consideration. If we assume that (1) cooperatives (and other buyers) in developing countries could and would buy more agricultural commodities from U.S. cooperatives if they were able to export successfully more of their own commodities, and (2) a new kind of U.S. farmer-controlled cooperative could not only provide agricultural commodities for export to foreign cooperatives (and other buyers) in developing countries, but also could assist foreign cooperatives (and other sellers) to export more of their commodities, then there is a way in which intercooperative international trade can be increased—slowly and carefully, but substantially.

Theoretically, at least, a new U.S. farmer-controlled international trading cooperative could be organized—possibly under the Webb-Pomerene Act—to do these things:

1. Act as export agent for U.S. farmer cooperatives interested in exporting more agricultural commodities to cooperatives (and other buyers) in developing countries. Commodities included might be wheat, feed grains, soybeans, cotton, breeding livestock, and seeds.

2. Act as import agent for U.S. farmer cooperatives interested in purchasing agricultural commodities and farm supplies from cooperatives (and other sellers) in developing countries. Commodities included might be fertilizer materials, petroleum products, twine and cotton bagging, steel products, certain vegetables and preparations, and certain fruits and preparations.

3. Act as export agent for cooperatives (and other sellers, to the extent necessary) in developing countries by selling their commodities to "third country" buyers—buyers who were not located in the United States or the exporting country. The only "third country" buyers included in this arrangement would be those who could pay in U.S. dollars.

Thus the U.S. international trading cooperative would deal with (1) U.S. exporting and importing cooperatives, (2) cooperative and noncooperative sellers and buyers in developing countries, and (3) cooperative and noncooperative buyers in third countries.

The objectives would be to (1) foster two-way trade between U.S. farmer cooperatives and their counterparts in developing countries, (2) assist U.S. agricultural exporting cooperatives to increase their export sales volume, (3) assist U.S. farm supply cooperatives to obtain needed commodities from foreign sources, and (4) minimize the extent to which U.S. farmer cooperatives would become involved in international monetary exchange.

To the maximum extent possible, U.S. dollars paid by importers in the United States and third countries would be used to pay U.S. cooperatives exporting agricultural commodities. Similarly, the foreign currency paid by the importing cooperatives (and other buyers) in a developing country would be used to pay the exporting cooperatives (and other sellers) in that country.

There would be no direct bartering—that is, an exchange of certain commodities produced in one country for those produced in another—but the basic principle of exchange would be involved.

It would be a tremendous challenge to develop these arrangements. Foreign government restrictions on trade and currency might make it impossible in some countries. Further, third country importers would provide the "balance wheel" for the operation and sales to them could not be turned on and shut off at will.

The new U.S. international trading cooperative would need a staff of experts. In addition to supervising export sales and import purchases by U.S. cooperatives, the staff would have to manage sales of foreign-produced commodities on world markets, arrange for ocean (and possibly air) transportation of a variety of U.S. and foreign commodities, and deal with foreign currencies as well as U.S. dollars.

Nevertheless, this concept of international trade among cooperatives may deserve consideration in the future.

General conclusion. It is always easier to talk or write about the desirability of greater coordination of business activities among cooperatives than it is to develop successful new programs. Yet U.S. cooperatives must continue to grow if they are to continue to serve American farmers in world markets. And growth in the future will require greater coordination and joint efforts by farmer cooperatives. Some existing associations will be able to continue to export successfully on their own, but many of those now exporting—as well as others that may enter into exporting—should seek the strength inherent in united effort.

APPENDIX:—ILLUSTRATION OF A CENTRALIZED EXPORT SERVICE COOPERATIVE

This illustration outlines a hypothetical division of responsibilities between (1) a specialized, centralized, national livestock export service cooperative, and (2) each member cooperative in a group of local and regional associations that assemble livestock from farms for sale in domestic and foreign markets.

Responsibilities of Member Cooperative

1. Supply monthly to Export Cooperative a report projecting probable supplies of livestock available for export during the next 3 months. (This would be for informational purposes and not be a commitment by the Member Cooperative.)

2. Refer to Export Cooperative, for its consideration and disposition, every export sales inquiry received from any source.

3. Sign a sales agreement with the buyer and bear all responsibility for compliance with the terms of that agreement that pertain to the seller.

4. Sign a letter of credit, when needed, and bear all responsibility for compliance with the terms pertaining to the seller.

5. Take title to all livestock and retain it until the point at which the buyer takes title.

6. Procure livestock in the numbers and qualities necessary to meet the specifications in a sales contract. Obtain animals from members usually, but make purchases from other producers or in the open market when necessary.

7. Handle assembly of the livestock.

8. Deliver livestock to designated air or sea port of embarkation at time required to meet terms of export sale agreement with buyer.

9. Bear the liability for collection of monies due for livestock shipped, although Export Cooperative will assist in making collections when and if necessary.

10. Pay such fees/commissions to Export Cooperative as were mutually agreed on prior to development of the sale, and as are consistent with fees/commissions paid by other Member Associations for similar sales.

Responsibilities of Export Cooperative

1. Coordinate the livestock export marketing activities of all Member Cooperatives.

2. Periodically provide information to Member Cooperative on livestock market conditions and developments in foreign countries.

3. Select potential buyers in foreign countries, obtain credit rating reports and other information related to their integrity and dependability, and learn their preferences with respect to quantity, quality, etc.

4. Contact all interested Member Cooperatives to find out which are interested in specific inquiries or tenders received from foreign buyers, and at what prices and in what volumes. (Information in offers received from one Member Cooperative will not be passed on to other Member Cooperatives.)

5. Allocate business involved in each sale to one or more Member Cooperatives in the most practicable and efficient manner, based on all available information.

6. Handle all correspondence with buyers, transportation agencies, banks, Federal Government, etc., pertaining directly to administration of each export sale.

7. Handle negotiations with buyer.

8. Work with buyer to develop detailed terms of sale—including animal specifications, prices, payment terms, and shipping arrangements—and mutual understanding of those terms.

9. Determine what restrictions and requirements are imposed by the foreign government in the country of destination, and make sure the Member Cooperative understands and complies with them.

10. Develop a detailed cost statement for Member Cooperative—prior to a sale—to cover all marketing costs to be incurred by Member Cooperative beyond those involved in assembling and delivering animals to port of embarkation; statement to include costs of animal inspection, feeding and handling of animals prior to embarkation, preparation and handling of documents, bank charges, and international transportation and insurance if buyer takes title at a foreign port of delivery.

11. Arrange for financing of each sale, if requested by Member Cooperative, through a U.S. commercial bank, bank for cooperatives, the CCC Export Credit Sales Program, or through another institution or agency as needed.

12. Maintain an open cargo insurance policy for international shipments by land, ocean, or air that can cover shipments made by Member Cooperative to foreign destinations.

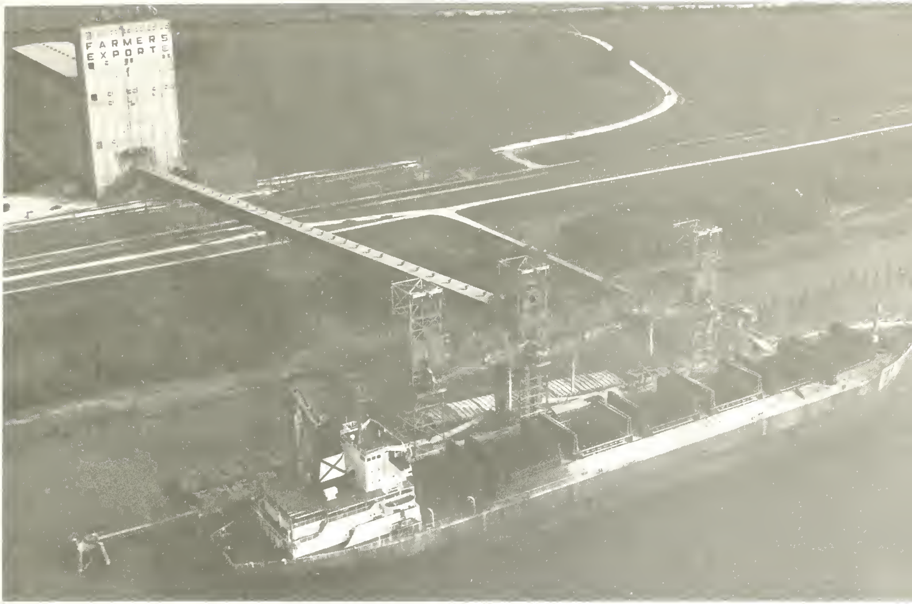
13. Develop needed business forms and for each sale prepare certain documents, such as pro forma invoice, commercial invoice, letter of credit, and shipping list.

14. Handle certain documents, such as vaccination records, health certificates, grade certificates, and source of origin certificates.

15. Utilize services of a U.S. foreign freight forwarder for preparing or handling certain documents (such as overseas bill of lading and shipper's export declaration) and in making shipping arrangements.

16. Maintain close working relationships with the Foreign Agricultural Service, U.S. Department of Agriculture, and regularly receive pertinent information—including export sales leads—from that Service.

17. Participate in promotional programs (such as foreign livestock shows, export sales missions to foreign countries, tours made in this country by foreign buyers, etc.) funded in part or in entirety by the U.S. Department of Agriculture, when and where desirable.



This port elevator is located at Ama, La., and operated by the Farmers Export Company. Soybeans and grains are shipped to many distant parts of the world.

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For copies, write Farmer Cooperative Service, U.S. Department of Agriculture, Washington, D.C. 20250.

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.