A Guide to Exporting Pork

Introduction

The United States has become a world premium producer and exporter of pork. The outlook for U.S. pork exports is being enhanced through multilateral and regional trade agreements. Opportunities to capitalize on these agreements require detailed knowledge of export procedures.

Because you are reading this guide, it indicates your interest in exporting. There are some questions you must ask yourself so that you can determine the direction you want to go. Is your firm "export-ready?" Does your firm have what it takes to commit fully to international marketing? Do you possess the necessary financial and staff resources? Have I been successfully marketing pork in the U.S. domestic market? Success breeds success. Success (financial, market share, product development, etc.) in the domestic market place is the best indicator of success in overseas marketing, although we know these are entirely different markets. If you have been successful on the domestic market, this is a good start and you might be successful exporting. This document is meant to give you an overview of the differences in these two very different markets, and how to approach overseas opportunities.

Do I have sufficient production capacity to commit to export markets? Am I committed to providing a high level of service to meet my export customers' requirements? Do I have the resources to support my export efforts? How involved do I want to be in the export effort?

Is your firm's competitiveness based solely on price? Price is important, but in international markets other factors count: reliability, flexibility, quality, payment terms and after-sales service. Do you have a firm grasp of where your industry is going - not just domestically but globally? In the global market place change occurs rapidly. To stay competitive exporting firms need to be very aware of what is happening in their industry worldwide.

Honest frank answers to the above should help you assess to some extent how good your company's prospects for sustained success in international marketing. And, hopefully, it will help you get a better idea of what you need to consider as you move forward.

Your pork business cannot ignore that exports are crucial to America's pork industry's economic well being. An international business plan is necessary, now that you've decided to enter the export market. Creating a business plan is important in defining your present status, future goals and objectives, identifies constraints. The business plan creates an action plan and timetable that allows you to measure success.

There are several ways to get your product into the export market. A large portion of pork is sold either by processors, who have their agents overseas, or to domestic buyers who represent foreign customers and export the product themselves. A producer therefore does not have to deal with the complexities of setting up product distribution. Nevertheless, many companies for a variety of reasons are choosing to export directly.

So, how do you identify markets? Most companies use either the Shotgun Approach or the Focused Approach to identifying their international market.

Shotgun Approach - Many companies that are new to the international market place use this approach because they feel it won't require a great deal of their time to research the markets. They indiscriminately send information to countries throughout the world and then see if this generates inquiries. The shotgun approach is not very effective. It actually takes more resources to reply to inquiries from prospects scattered around the globe, than to research the world market and concentrate resources on three to five markets. In the shotgun approach, a great deal of time is spent on wild goose chases.

Focused Approach - is a cost effective and efficient method for a company to find markets with the greatest potential. Most of the information needed to make intelligent decisions on international markets can be readily found on the Internet. This information is either free or inexpensive. In the focused approach, a company identifies ten to fifteen potential markets. Then it reevaluates these in depth to identify the best potential three to five markets. Not only are the best markets identified, but also the best potential business partners in those markets are found. This approach allows the company to maintain better control of its markets from the beginning and it reduces the probability of making a costly business blunder.

The US Meat Export Federation (USMEF) or the National Pork Producers Council (NPPC) can help you identify markets for your products. The Foreign Agricultural Service's Dairy, Livestock and Poultry Division has economists who track the world pork situation and can also help you to identify export markets. The less developed markets today may be the ones with the most opportunity tomorrow! Once you have decided what countries your interested in, you will want to visit the Library of Export Requirements website at http://www.fsis.usda.gov/OFO/export/emplib.htm to ascertain country import requirements.

HOW TO IDENTIFY BUYERS

The first place to go is the US Meat Export Federation or the National Pork Producers Council. They have a number of programs to help you identify buyers. The USMEF also has a network of overseas offices with highly trained and skill meat marketers who maintain lists of potential buyers.

The Foreign Agriculture Service (FAS) also has a network of Agricultural Officers stationed in over 70 countries and cover 110 countries of the world. They also can identify potential buyers. FAS has a Trade Leads and a Buyers Alert program to assist you in finding potential customers. Most of this information is on the web and can be obtained by going to http://www.fas.usda.gov/agexport. These trade leads are also listed in the Journal of Commerce under the heading, "Trade Opportunities Program."

Your next possible source of buyers would be to participate in trade shows. There are many shows in the U.S. that have international interests. These include the large shows such as the FMI show in Chicago each May, or the AMI Show in Chicago in October. There are also a number of international trade shows that are sponsored by USMEF or FAS.

You can also find buyers by visiting the country your interested in doing business in. Both USMEF and FAS can assist you in setting up appointments with prospective buyers. Or you may want to join one of the many USMEF and NPPC trade missions that travel overseas each year.

The last possible avenue to find buyers is to advertise in foreign trade magazines. Again, both USMEF and FAS can assist you in those efforts. Contacts can be found on the last page of this document. The majority of successful food exporters from the United States have grown their business on relationships. Building relationships and trust is key to being successful in the export market. Spend time with potential clients, visit countries, and get a complete understanding of the challenges facing your partners. Start slow, and build the business on a solid foundation.

HOW TO MOVE THE PRODUCT OVERSEAS

Having identified the market for your product, we now need to evaluate the most profitable way to get your products to these markets. There are several methods of foreign market entry including exporting, licensing, and joint venture.

Selling your product directly to a foreign firm or indirectly, through the use of an export intermediary, such as a commissioned agent, an export management or trading company can be an effective means of exporting. International joint ventures can also be a very effective means of market entry.

Exporting directly is the most common way used by small businesses. The start-up costs and risks may be greater than indirect exporting, but profits can be realized early on and can be greater. Selling your product directly to an international buyer means that you will have to handle the logistics of moving the product overseas. A freight forwarder can assist with the logistics

International buyers work on a commission basis to locate buyers for your product. Foreign distributors, in comparison, purchase your product in the U.S. and re-sell it. They may maintain an inventory of product, which allows the foreign buyer to receive your product quickly.

You should specify in your contract with a representative or distributor whether they have an exclusive or non-exclusive contract, the region or territory to be covered, the length of association, the payment and finance terms, and acceptance of goods issues.

Exporting indirectly means that you use an export intermediary such as commissioned agents, export management companies or export trading companies. An agent acts as a broker who will assist you in the preparation of export documents and shipping. They usually will not find buyers of fill orders for you but will pass on this information to you.

Export Management Companies will represent your product to foreign buyers, along with other products. These companies will take care of all aspects of exporting your product including market research, locating foreign buyers and distributors, arrange export financing, handle all logistics (invoicing, insurance, customs documentation), handle marketing aspects and advise you on legal aspects of exporting. These companies work either on a commission basis or a retainer basis. Some take title of the goods they sell and make a profit on the markup. USMEF or the Foreign Agricultural Service can help you locate an export management company.

Export Trading Companies or Cooperatives perform many of the functions of an Export Management Company. They will act as an agent between buyer and seller, taking title of the products. This arrangement practically eliminates the risks associated with exporting. However, in some cases you may give up control on how to market your product and your image and name are at stake. Some Exporting Trading Companies or Cooperative may be very beneficial in as a partner in representing your product. You may also have to discount your product to sell to an intermediary, who in turn will raise the price to the foreign buyer, which then could affect your competitive position in the market.

You can find export intermediaries through the US Meat Export Federation or the National Pork Producers Council. Both associations have allied industry groups that work with pork producers, processors to export their products.

Internationa l Freight Forwarders play an integral part in the transportation process. Freight forwarders act on behalf of the exporter in arranging transportation services. They are familiar with the import rules and regulations of foreign countries, methods of shipping, U.S. Government export regulations, and documents connected with foreign trade.

Services--Freight forwarders provide a number of services. During the initial planning phases the freight forwarder can help decide:

1. Which carriers to use. 2. Best days of the week to ship. 3. The best route. 4. The most economical shipment size.

At the beginning of a sale, they can provide the exporter with a quotation on:

- Freight costs, Port charges, Consular fees, Cost of special documentation, Insurance costs, and Freight forwarder's fees.

This information can be used in the preparation of an accurate price quotation to foreign customers. At the shipper's request, the freight forwarder can make the actual arrangements and provide the necessary services for expediting the shipment to its overseas destination. This can include booking space with the carrier, completing export documentation, arranging for cargo insurance, advising on foreign import regulations, providing guidance on packaging, marking, and labeling, arranging for products to be packed and containerized at the exporter's request.

Some freight forwarders are also freight consolidators, but this is not a standard service. Freight consolidators are firms that help small exporters with less than container shipments. They gather freight for several exporters and combine this freight on one container to the destination, thereby reducing shipping costs for small shipments.

Cost--Freight forwarders operate on a fee basis paid by the exporter. The forwarder's fees consist of an agreed upon amount, plus documentation charges. The cost for their services should be figured into the price charged to the customer. Freight forwarders also collect a percentage of the freight costs from the carrier.

Selection Criteria--Every company has its own needs to consider when selecting a freight forwarder. The following list includes a few suggestions of criteria to consider:

- Is the freight forwarder licensed by the Federal Maritime Commission (FMC) to handle ocean cargo? Currently, all ocean freight forwarders in the United States must be licensed by the FMC. John: This need to also refer to land movements. Is there a similar land commission?
- Is the freight forwarder financially stable? Ask for credit references and check them. Check with carriers to see that the freight forwarder has a good payment record. Review a copy of their annual report. If it's a larger company you can check them on the New York Stock Exchange, NASDAQ, or Dun and Bradstreet.
- Does the freight forwarder have a record of customer satisfaction? Ask the freight forwarder for a list of customers and call them.
- Does the freight forwarder have knowledge of and experience with your product, desired shipment method, and destination country? Many companies feel that freight forwarders experienced with moving their product, shipment method, and destination market will make better partners. However, some freight forwarders feel that although they do not have prior experience shipping a given product or shipping to a specific destination, they could handle any move, anywhere.
- Does the freight forwarder have a network of overseas agents? Does the freight forwarder have an office in your destination market? Are they agents or owned and operated offices? Do the offices have the ability to communicate with one another on-line?
- Is the forwarder large enough--with ample facilities--to handle your business? Do they have warehouse facilities if that service is needed? Do they have electronic data interchange (EDI) capabilities? Do they have sufficient staff to handle your volume and other needs?
- Does the freight forwarder have "errors and omissions insurance"?
- Is the freight forwarder willing to take the time to explain terms and procedures in a way you can understand?

The Shipper and Exporter Assistance Program of USDA’s Agricultural Marketing Service, has recently compiled a directory of freight forwarders who handle a variety of agricultural products. To obtain a copy, contact AMS by telephone at (202) 690-1304, or by facsimile at (202) 690-1340, or view it on-line at http://www.ams.usda.gov/tmd/freight/index.htm

Non-Vessel Operating Common Carrier

Smaller shippers, with less-than-container-load (LCL) shipments, can take advantage of the lower costs associated with being a big shipper. Non-vessel operating common carriers (NVOCCs) book space on steamships in large quantities at lower rates and sell space to shippers in smaller amounts. NVOCCs consolidate small shipments into container loads that move under

one bill of lading. More favorable rates are passed on to the shipper. Services typically offered by NVOCCs, in addition to customary services provided by freight forwarders included consolidation of freight and financial liability for goods due to loss or damage.
NVOCCs operate as a carrier and should be evaluated by applying the same service, price, and delivery standards. For more information on NVOCC's contact the North Atlantic Alliance Association, Inc. http://www.naaai.com

Shippers Association

Shippers associations operate in much the same way as NVOCCs. They are non-profit associations that represent a number of shippers. The members pool their cargo to increase the volume of total shipments. The shippers association can then book larger amounts of space on steamships at a lower rate than would be available to the individual shippers. There are presently about 40 active shippers associations in the United States; very few deal exclusively in agricultural products. For more information on shipping associations contact the American Institute for Shippers, www.shippers.org, or the International Shippers Association, www.wtic.net/isa/index.html.

Customs Broker

Customs brokers act on behalf of exporters and importers to clear goods through customs and deliver the items to the importer's warehouse. They are licensed and regulated by the U.S. Treasury Department. Importers may designate a particular customs broker. Some freight forwarders are also customs brokers. For more information on Customs Brokers, contact the International Federation of Customs Brokers Associations, www.ifcba.org, or the National Customs Brokers & Forwarders Association of America, Inc., www.ncbfaa.org.

Cold Storage Distribution and Logistics

Public Refrigerated Warehouses (PRW's) provide a wide variety of services for exporters PRW's can provide a variety of logistics and distribution services needed. These services include:

- Processing Products – cutting, boxing and strapping for export
- Labeling and Stamping boxes for export
- Filling out Export Certificates
- Freezing and storing product
- Loading containers
- Provide transportation services to Port facilities
- Arranging for USDA export inspection
- Assistance with meeting importing countries requirements
    - Documentation
    - Weight requirements

- Export Documents

For more information on PRW’s contact The International Association of Refrigerated Warehouses, www.iarw.org.

Consultants to the Industry

There are several individual consultants, as well as companies that provide assistance to exporting companies. These consultants can provide a variety of services ranging from product development, packing requirements, boxing requirements, labeling requirements, product portion control, financial planning and other services. When starting the exporting process, it would be a good idea to engage a consultant to assist your organization. To get further information on consultants contact the NPPC or the USMEF.

DOCUMENTATION -Documents Prepared Before the Shipment

Commercial Invoice/Consular Invoice

After the pro-forma invoice is accepted, the exporter must prepare a commercial invoice. The commercial invoice is necessary for both the exporter and importer.

The exporter needs the commercial invoice to prove ownership and secure payment. The description of the goods on the commercial invoice must correspond exactly to the description in the letter of credit or other method of payment. There can be no exceptions.

The importer needs the commercial invoice since Customs authorities often use it to assess duties. For this reason, it is common practice to prepare a commercial invoice in English and in the language of the destination country. The freight forwarder can advise you when a translated copy is necessary.

Similar to a commercial invoice, a consular invoice is required by certain countries. The consular invoice must be prepared in the language of the destination country and can be obtained from the country's consulate, and often must be "consularized."

In some countries, the commercial invoice must be prepared on a special form known as a "customs invoice." Your importer may request this of you.

Shipper's Export Declaration (SED)

The most common document used by exporters is the Shipper's Export Declaration (Form 7525-V), for mail shipments valued at more than $500, and required for other shipments valued at more than $2,500. In addition, a SED must be prepared for all shipments covered by an Individually Validated Export License (IVL), regardless of value. The SED enables the Bureau of the Census to monitor for statistical purposes the kinds of products being exported from the United States. The SED must be presented to the carrier before the shipment departs.

You will need to determine the official description of the commodity you are shipping by obtaining a copy of the United States government publication entitled, Harmonized System/Schedule B Statistical Classification of Domestic and Foreign Commodities Exported from the United States and then transfer the appropriate description onto the SED. This is available from the Government Printing Office and from most freight forwarders.

SED forms can be obtained through international freight forwarders, the Government Printing Office or local Customs district offices. The "Exact Way to Fill Out the Shipper's Export Declaration" is available from the Bureau of the Census, Washington, DC 20233.

Certificate of Origin (where applicable)

Although the commercial invoice may contain a statement of origin, some countries (particularly those subject to certain free trade treaties, such as Canada or the Caribbean Basin) require Certificates of Origin. Certificates of Origin allow for preferential duty rates if the exporter's country has an agreement with the importer's country to allow entry of certain products at lower tariffs.

Export Packing List

Considerably more detailed and informative than a standard domestic packing list, an export packing list itemizes the material in each individual package and indicates the type of package: box, carton, etc. It shows the individual net, legal, tare and gross weights and measurements for each package (in both U.S. and metric systems). Package markings should be shown along with the shipper's and buyer's references. A copy of the packing list should be attached to the outside of a package in a waterproof envelope marked "packing list enclosed." The list is used by the shipper or forwarding agent to determine the total shipment weight and volume and whether the correct cargo is being shipped. In addition, customs officials (both U.S. and foreign) may use the list to check the cargo. The original packing list should be forwarded along with your other original documents in line with the conditions of sale.

Insurance Certificate

If the exporter is providing insurance, a certificate will be needed confirming the type and amount of coverage for the goods being shipped. Normal accepted practice for coverage is 110 percent of the CIF value. This certificate should be made in negotiable form and must be endorsed before submitting to the bank.

FSIS Inspection Certificate

The Food Safety and Inspection Service provide export certification of inspected and passed meat products. The FSIS Form 9060-5 (USDA FSIS Meat and Poultry Export Certificate of Wholesomeness, FSIS Form 9080-3 is the Application for the Export Certificate of Wholesomeness) provides for the inspection of product, certification that the product meets labeling and country requirements are met and permits the exportation of pork and other meat products.

Documents Used During the Inland Movement of the Goods

Shipper's Instructions
As an exporter, you are responsible for providing your freight forwarder with the necessary information regarding your shipment. The more details you provide, the greater the chances of your goods moving problem free. Your freight forwarder can provide you with a commonly used form for noting instructions.

Inland Bill of Lading
Inland bills of lading document the transportation of goods between inland points and the port from where the export will emanate. Rail shipments use "waybills on rail." "Pro-forma" bills of lading are used in trucking.

Delivery Instructions
The freight forwarder giving instructions to the trucking or railroad company where the goods for export are to be delivered prepares this document.

Dock Receipts
This document transfers shipping obligations from the domestic to the international carrier as the shipment reaches the terminal.

Bill of Lading/Air Waybill
Bills of lading and air waybills provide evidence to title of the goods and set forth the international carrier's responsibility to transport the goods to their named destination. There are two types of ocean bills of lading used to transfer ownership:

Straight (non-negotiable): provides for delivery of goods to the person named in the bill of lading. The bill must be marked "non-negotiable."

Shipper's Order (negotiable): provides for delivery of goods to the person named in the bill of lading or anyone designated.

The shipper's order is used with draft or letter-of-credit shipments and enables the bank involved in the export transaction to take title to the goods if the buyer defaults. The bank does not release title to the goods to the buyer until payment is received. The bank does not release funds to the exporter until conditions of sale have been satisfied.

When using airfreight, "air waybills" take the place of bills of lading. Air waybills are only issued in non-negotiable form, therefore the exporter and the bank lose title to the goods once the shipment commences. Most air waybills also contain a customs declaration form.

Methods of Payment

When deciding which method of payment to use, or combination of methods, the seller must weigh the risks and costs involved. The buyer doesn't want to tie up capital on product that it doesn't yet possess, which means that the seller can lose the sale if its competitors are willing to offer more attractive terms. On the other hand, the seller needs assurances that the buyer won't default on payment once it has received the goods. Companies need to develop an international credit policy that does not impede sales, but protects against loss. By answering the following questions, the seller can evaluate which payment options it can afford to offer the customer.

- Can the sale be made without offering credit?
- Does the buyer have a good credit history?
- What are conditions (i.e., market or political stability) in the buyer's country?
- What is company policy on extending credit?
- Can the seller offer credit and still make a profit?
- Can the business survive if it does not get paid?

Once the seller has determined the risks its company can afford to take, it's time to evaluate the risks associated with the more common methods of payment. Consulting with a qualified international banker at this time can help the seller make an informed selection. Ranked in order of risk from the seller's perspective, from the most secure to the least secure, the more common methods of payment are:

- Cash in advance
- Standby letter of credit
- Commercial letter of credit
- Documentary collection
- Open account
- Mixed methods
- Additional payment methods

Cash in Advance

Cash in advance is typically considered the safest method of collecting payment for the seller. Cash in advance can take the form of a wire transfer or payment by check. An international wire transfer is the preferred method, because it allows for quick receipt of good funds. Sellers should provide clear routing instructions to the buyer when using an international wire transfer including the name and address of the receiving bank and branch, the bank's SWIFT, Telex, and ABA numbers, and the seller's name and address, bank account title, and account number.

Collecting payment using an international check is a less attractive option than wire transfer because it can result in lengthy delays of final receipt of good funds. If the foreign buyer pays by check, made payable in U.S. dollars and drawn on a U.S. bank, the collection process is the same

as any U.S. check. If, however, the check is in a foreign currency or drawn on a foreign bank, the collection process becomes more complicated and can delay the availability of funds. There is also a risk that any check may be returned due to insufficient funds in the buyer's account. This can result in a charge-back and possible overdraft charges in the buyer's account.
An additional factor to consider is that advance payment creates cash flow problems and increases risks for the buyer. If the competition is willing to extend credit, the buyer may go elsewhere.

Commercial Letter of Credit

A letter of credit (L/C) is a commitment or promise from the buyer's bank to pay the seller once the seller has met all the terms and conditions of the letter of credit. L/C's are irrevocable, which means that once the L/C is established it cannot be changed without the consent of all parties.

The L/C more evenly distributes risk between the seller and buyer. The seller is assured of payment when the conditions of the L/C are met and the buyer is assured of receiving the goods ordered. It is a commonly used method of payment, especially when the seller/buyer relationship is a new one.

The L/C is, however, not without disadvantages. If any discrepancies exist in the documents required by the L/C the buyer has the option to approve the discrepancies and pay for the shipment or reject the shipment. A rejected shipment means that the seller must quickly locate a new buyer, re-negotiate with the buyer, usually at a lower price, or pay for the shipment to be returned. An L/C also adds to the cost of the transaction and can tie up the buyer's working capital or credit line prior to final payment.

A word of advice: when using an L/C, the seller should always have its international bank and its freight forwarder carefully scrutinize the L/C. They can help you determine if the L/C is legitimate, if all the terms can be met, and all the necessary bases are covered.

There are four parties formally involved in the collection of payment using an L/C:

- Buyer or applicant
- Applicant's bank or issuing bank
- Beneficiary's bank, which can act as an advising bank or confirming bank
- Seller or beneficiary

Applicant--The applicant (buyer) applies to its bank for the issuance of an L/C. The applicant must have a credit relationship with the issuing bank or pay cash.

Applicant's bank --The applicant's bank, or issuing bank, issues the L/C. The applicant's bank verifies that all documents comply with the terms and conditions of the L/C, and pays the seller.

Beneficiary's bank --The beneficiary's bank can act as an advising bank and/or confirming bank. An advising bank is the beneficiary's bank in the U.S. It verifies that the L/C is authentic and notifies the beneficiary of its receipt. The advising bank also receives the documents from the beneficiary and forwards them on to the issuing bank. However, the advising bank has no liability for payment of the L/C.

At the beneficiary's request, an advising bank can add its confirmation to the L/C. This means that the confirming bank adds its promise to pay the beneficiary for documents presented in compliance with the terms and conditions of the L/C. The confirming bank charges a fee for this service, based on its perception of the credit risk of the issuing bank. The beneficiary would request this service if it feels that there is a risk of not receiving payment from the issuing bank, due to country or bank risk issues.

Beneficiary--The seller is called the beneficiary. The beneficiary is responsible for the collection, presentation, and accuracy of the documents required by the L/C. A confirmed irrevocable L/C follows these steps:

1. After the terms of sale have been agreed upon, the buyer/applicant arranges for its bank to open an L/C.
2. The applicant's bank prepares an irrevocable L/C that includes shipping instructions.
3. The issuing bank sends the L/C to a U.S. bank, requesting confirmation.
4. The confirming bank in the U.S. prepares a letter of confirmation and delivers it to the beneficiary along with the irrevocable L/C.
5. The exporter/beneficiary, and the beneficiary's bank and freight forwarder, carefully review the L/C. The beneficiary verifies with its freight forwarder that the shipping dates can be met. If any of the terms or conditions in the L/C cannot be met, the beneficiary contacts the buyer/applicant immediately.
6. The exporter makes arrangements with the freight forwarder for the goods to be delivered to the port or airport.
7. Once the terms of the L/C have been met, the freight forwarder completes the documents required by the L/C.
8. The beneficiary or freight forwarder presents the required documents to the confirming bank.
9. The confirming bank reviews the documents. If the documents are in order and fully comply with the L/C, the confirming bank forwards them to the issuing bank for review and transmittal to the buyer/applicant.
10. The buyer/applicant, or its customs broker, receives from the issuing bank the documents necessary to claim title to the goods.
11. The confirming bank pays the beneficiary as specified in the L/C.

For more information on L/Cs, consult with a qualified international banker.

Standby Letter of Credit

Like the letter of credit, the standby letter of credit is a commitment or promise from the buyer's bank to pay the seller once the seller has met all the terms and conditions of the standby letter of credit. The difference is that the standby letter of credit is a guarantee of payment from the bank only if the buyer defaults on the payment. The buyer pays on open account or credit terms. Should the buyer default, the seller presents to the bank a sight draft and a written statement certifying that the buyer has failed to make payment on the shipment secured by the standby letter of credit, and collects payment from them. The use of a standby letter of credit adds a bank guarantee of payment at a lower cost than payment collection using a letter of credit.

Documentary Collection

To collect payment from a foreign buyer using documentary collection, the seller sends a draft or other demand for payment with the related shipping documents through bank channels to the buyer's bank. The bank releases the documents to the buyer upon receipt of payment or promise of payment. The banks involved in facilitating this collection process have no responsibility to pay the seller should the buyer default. Documentary collection carries the risk that the buyer will not or cannot pay for the goods upon receipt of the draft and documents. If this occurs it is the burden of the seller to locate a new buyer or pay for return shipment.

Documentary collections are best considered when shipping by ocean freight. This is because the ocean bill of lading (b/l) is a negotiable document and acts as title to the goods. The steamship company will not release the shipment from the port unless the buyer has the original B/L, and the buyer cannot get the original B/L unless they pay the bank. In the case of air shipments, the B/L is not a negotiable document, does not act as title to the goods, and the benefit of using a documentary collection is lost.

Drafts--A draft (or bill of exchange) is a written order by one party directing a second party to pay to the order of a third party. Drafts are a negotiable instrument, easily transferable from one party to another. There are two types of drafts: sight drafts and time drafts.

Sight Drafts--In the case of a sight draft, once the goods have been shipped, the seller signs the original bill of lading and delivers it to the bank along with the sight draft, invoices, and other supporting documents required by the buyer and destination country, to be forwarded to the buyer's bank. The buyer's bank then notifies the buyer that it has received the documents. When the buyer pays the sight draft, the bank releases the bill of lading, passing title of the goods to the buyer.

Time Drafts--A time draft requires payment within a certain time after the buyer accepts the draft and receives the goods. By signing and writing "accepted" on the draft, the buyer is expected to pay within the stated time period. A buyer can delay payment by delaying acceptance of the draft or refusing to pay at maturity. In most countries, an accepted time draft is stronger evidence of debt than an unpaid invoice.

Open Account

Under an open account, collection of payment is the same as in cash in advance, wire transfer, or check. The difference is in the timing of collection. The exporter bills the buyer, who is expected to pay under agreed terms at a future date. Open account is a low-risk method of payment for the buyer and many large companies will only buy on open account. Due to the high risk involved for the seller, the seller must be confident that the buyer is well established, has a long and favorable payment record, has good credit, and is legally able to convert currency into U.S.

dollars. Collection on delinquent payments under open account is difficult and costly due to the lack of documents and banking channels.

Mixed Methods

The payment methods are not mutually exclusive. It is possible, and frequently practiced, that a seller will use a combination of payment methods. For example: the seller may require 50 percent of the payment as cash in advance using a wire transfer and the remaining 50 percent documentary collections using a sight draft.

Additional Methods of Payment

Consignment - Under consignment, the foreign distributor sells goods on behalf of the exporter. The exporter does not receive payment until the distributor sells the goods and transfers title of the goods. If the foreign distributor is unable to sell the goods, the exporter must pay for the return shipment. This method of payment is risky for the exporter.

USDA Payment Guarantee Programs - The U.S. Department of Agriculture administers export credit guarantee programs for commercial financing of U.S. pork products. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. pork sales, but where financing may not be available without USDA guarantees. Under these programs, USDA does not provide financing but guarantees payment due from foreign banks. Additional information can be found at http://www.fas.usda.gov/ec

Export Import Bank - The Export Import Bank (EXIM) has various programs to assist U.S. exporters. More information can be found by contacting them at http://www.exim.gov.

Meat Export Guarantee Program ("MEG") – The U.S. Meat Export Federation has export assistance programs for their members. One of the barriers to increased red meat exports to areas in Eastern Europe and the Former Soviet Union has been the cash flow problems for importers created by shipping time from the United States, together with the need for the U.S. industry to exercise financial prudence in emerging markets. To help facilitate trade to such markets, the U.S. Meat Export Federation is establishing a Meat Export Guarantee ("MEG") Program to mitigate any potential loss to USMEF members in the case of default by foreign buyers.

USMEF's total maximum exposure would be limited to $125,000, allowing sales of $1.25 million to be facilitated at any one point in time, and significant sales over the course of a year. The maximum amount that USMEF would guarantee on any one transaction is $20,000 (10% of a $200,000 sales contract). The seller and USMEF would share equally in the first 20% of loss or gain on any transaction.

Transactions under the MEG would operate as follows: A foreign buyer in an eligible country would place an order with a USMEF member and prepay 25% of the order price. An Application and Agreement for coverage under MEG would be sent to USMEF; USMEF must accept the Application in order for the MEG to become operational.

Under the contract between buyer and seller, full payment must be received prior to the shipment reaching the port of entry, according to a pre-agreed schedule. Shipping documents must remain under the control of the seller until final payment is received. If payment is received, then the transaction is complete and the MEG allocation is released.

If the buyer does not make full payment by the due date, the 25% deposit is forfeited and the seller informs USMEF. The seller is now required to attempt to mitigate the loss by selling the product to another buyer or by shipping it back to the United States. Any resale above 75% of the cargo's value would result in excess on the original sales price, half of which would be paid into the MEG fund.

Should the seller be unable to sell the consignment above 75% of the original price, then the MEG will be invoked and fund will pay the seller half of the loss up to 20% of the selling price (i.e. the MEG's contribution will be no greater than 10% of the contract price).

USMEF will charge an up front fee to the seller of 2% (.002) of the maximum guaranteed sale amount. Thus if the seller applied for the guarantee on a $50,000 transaction, the fee would be $100. If the seller applied for the maximum guarantee sale amount of $200,000, the fee would be $400.

For further information or an Application and Agreement contact the Export Services Department at USMEF. The Application and Agreement can be printed from the USMEF web site (www.usmef.org). The completed application and agreement can be faxed to the Export Services Department for immediate consideration; however the original signed application along with a check for the fee must be delivered to USMEF before the application can be accepted by USMEF.

Currency of Payment

The simplest currency of payment for U.S. exporters is U.S. dollars. When quoting prices and requiring payment in U.S. dollars, exporters are placing the burden and risk of foreign currency conversion on the buyer. On the other hand, some U.S. exporters knowledgeable in foreign exchange find it profitable to accept payment in other currencies. If the shipment's value is large enough, say U.S. $25,000 to $50,000 or more, it may be possible to hedge against the foreign exchange risk. Experienced international bankers can offer advice on foreign exchange risks and offer suggestions on how to hedge against those risks.

Common Discrepancies that can lead to non-payment.

- Documents inconsistent with each other.
- Description of goods on invoice differs from that in the credit.
- Marks and numbers differ between the documents.
- Absence of documents called for in the credit.
- Incorrect names and addresses.

Draft (Bill of Exchange)

- Amount does not match invoice.
- Drawn on wrong party.
- Not endorsed correctly.

- Drawn payable on an indeterminable date.

Transport Documents

- Shipment made between ports other than those stated in the credit.
- Signature on bill of lading does not specify on whose behalf it was signed.
- Required number of originals not presented.
- Bill of lading does not evidence whether freight is prepaid or collect.
- No evidence of goods actually "shipped on board."
- Bill of lading incorrectly consigned.
- "To order" bills of lading not endorsed.

Insurance

- Insurance document presented of a type other than that required by the credit.
- Shipment is underinsured.
- Insurance not effective for the date in the transport documents.
- Insurance policy incorrectly endorsed.

Deadlines

- Late shipment.
- Late presentation of documents.
- Credit expired.

Default by Foreign Buyers and Payment Issues – Experienced exporters will tell you the best way to handle payment issues are to avoid them before they happen. As we have discussed in the previous sections, attention to detail, and knowing your buyer are the most important issues regarding payment. There are several ways to gather additional information on the buyer; one is the US Department of Commerce offers International Company Profiles (ICP). This is a background report on a foreign firm completed by a U.S. commercial officer. This report includes the size of the company, the number of employees, the reputation, the products handled, the owners, and trade references. Further information on ICP can be gathered at the Trade Information Center at 1-800-USA-TRADE or by using the Internet at: http://ita.doc.gov/uscs .

It is a good idea to also be aware of changes in your customer's payment patterns. Is the customer extending the payment terms? If you are having issues with payment you should contact your international bankers, or your legal firm to assist you with your efforts.

If all resources have been utilized, and direct negotiations don't seem to be working with the buyer, it is suggested to have your legal firm contact the International Chamber of Commerce to assist with solving the issue. For information contact the vice president for arbitration, U.S. Council of the International Chamber of Commerce, telephone (212) 354-4480 or by the web at: http://www.iccwbo.org.

Export Advice and Assistance

Whether a company is in the beginning stages of market research or an experienced exporter, information and assistance are available from a variety of sources. This section lists some of the Federal resources available to agricultural exporters by the type of assistance offered.

General Market Research and Market Trends- For general information, trade statistics, country requirements, trade policy issues, export assistance programs:

USDA, Foreign Agriculture Service
Dairy, Livestock, and Poultry Division
1400 Independence Ave. SW
Room 5935, South Building, or Stop 1044
Washington, DC 20250-1044
Phone: (202) 720-8031 Fax: (202) 720-0617
Web site: www.fas.usda.gov/dlp

Trade leads, foreign buyer lists and international trade shows
USDA, FAS, AgExport Services Division
1400 Independence Ave. SW
Room 4939, South Building or Stop 1052
Washington, DC 20250-1052
Phone: (202) 720-7420 Fax: (202) 690-4374
Web site: www.fas.usda.gov/agex

Meat and poultry foreign import requirements
USDA, Food Safety Inspection Service,
International Programs/Export Coordination Division
1400 Independence Ave. SW
Room 0114, South Building
Washington, DC 20250
Phone: (202) 501-6022 Fax: (202) 501-6929
Phone: (202) 720-9051 Fax: (202) 690-3856
Web site: www.fsis.usda.gov

Animal health requirements
USDA, Animal Plant Health Inspection Service, Veterinary Services
National Center for Import and Export
4700 River Road, Unit 38
Riverdale, MD 20737
Phone: (301) 734-3294 Fax: (301) 734-6402
Web site: http://www.aphis.usda.gov/export/

U.S.D.A. Grading and Certification
Agricultural Marketing Service, Livestock and Seed Division
Meat Grading and Certification Branch
1400 Independence Ave. SW
Room 2628, South Building

Washington, DC 20250-6456
Phone: (202) 720-1246   Fax: (202) 690-4119

Web site: www.ams.usda.gov

Export Transportation
USDA, AMS, Transportation and Marketing Division
Shipper and Exporter Assistance
1400 Independence Ave. SW
Room 1217, South Building or Stop 0267
Washington, DC 20250-0267
Phone: (202) 690-1304   Fax: (202) 690-1340

Web Site: http://www.usda.gov/ams/tmdsea.htm

Ocean liner carrier regulations, both American and foreign

Federal Maritime Commission
Bureau of Tariffs, Certification, and Licensing
800 North Capitol Street NW
Washington, DC 20573
Phone: (202) 523-5796   Fax: (202) 523-5830

Federal Maritime Commission
Office of Freight Forwarders
800 North Capitol Street NW
Washington, D.C. 20573
Phone: (202) 523-5843

Web Sites: http://www.fmc.gov

Export Financing and Insurance

Agricultural export credit programs

USDA, FAS, Commodity Credit Corporation (CCC)
Operations Division
1400 Independence Ave. SW
Room 4521, South Building
Washington, DC 20250-1000
Phone: (202) 720-6211   Fax: (202) 720-0938

Web Sites: http://www.fas.gov/ec

Export-Import Bank of the U.S.
Washington, D.C. Office
811 Vermont Ave., NW
Washington, DC 20571
Phone: (800) 565-3946, (202) 565-3946
Fax (202) 565-3380
Web Site: http://www.exim.gov/

Associations

U.S. Meat Export Federation
Independence Plaza
1050 17th Street, Suite 2200

Denver, CO. 80265
Phone: (303) 623-6328
Fax: (303) 623-0297
Web Site: http://www.usmef.org

National Pork Board and Iowa Pork Board
P.O. Box 9114
Des Moines, IA 50306
Phone: 515-223-2600
Fax: 515-223-24-2646
Web Site: www.porkboard.org