

Session 4.5 Exporting

Key learning points



- Why export?
- Export research
- EU regulations for the import and export of fresh fruit and vegetables
- Packaging and labelling
- Organising export sales
- Recruiting and working with intermediaries
- Building an export quotation
- Deciding on which terms of delivery to use
- Documents needed for export
- Getting paid
- Cargo and credit insurance

Main objectives of the session

By the end of this session participants will be better able to:



- Prepare an export plan and strategy within an overall marketing plan
- Understand the opportunities and threats of exporting to a business
- Undertake research into export markets
- Determine the main differences between domestic and export markets
- Organise and manage export sales
- Understand EU import/export regulations and tariffs
- Design export packs and labels
- Identify and work with agents and distributors
- Develop joint ventures
- Prepare agency and joint venture contracts
- Prepare export quotations, price effectively and assess the cost effectiveness of exporting
- Understand INCOTERMS and prepare terms of delivery documents
- Select and use freight forwarders
- Understand and prepare export documents
- Prepare letters of credit
- Insure cargo and against non-payment

4.5.1 Why export?

Globalisation of trade offers businesses export opportunities as never before. New opportunities arise as trade barriers are reduced. This allows countries and producers to increasingly specialise in areas of best opportunity and more efficiently allocate resources.

On the surface it would appear that international trade would be no different than trading within a country. However there are numerous additional challenges and opportunities. Differences include currencies, language and culture, technologies, business practices, legislation, buyer needs and politics.

No business can afford to embark on a new venture unless it is reasonably assured that adequate benefits or financial returns will result. Before even contemplating exporting six questions need to be answered:

1. Why should we export?
2. What can we export?
3. To whom should we export?
4. How can the goods be best exported?
5. How can we make any money from exporting?
6. How can our company guard against possible failure?

Whilst there are many good reasons for exporting there are also perfectly valid arguments against. Such as;

- ❑ Fluctuations in the exchange rates
- ❑ Costs of possible modifications to the product for export
- ❑ The need to assign financial, management and other resources and which might be used elsewhere.

Any decision to export must be based on opportunities available rather than wanting to travel or because it seems like a good thing to do. Exporting needs to be taken seriously and not as a means of shipping out surplus production. There must be an ongoing top management commitment to export in order to ensure success.

4.5.2 Export research

If good reasons for exporting can be identified, then information will need to be obtained in order to avoid making costly mistakes. Research into export markets will not guarantee success but will help to reduce the risk of failure. Basic information about the target area will need to be collected including information on:

- ❑ Climates
- ❑ Ports and distances
- ❑ Politics
- ❑ Tariff barriers, customs duties or quotas
- ❑ Currency restrictions and convertibility
- ❑ The level of economic development and social conditions
- ❑ Language
- ❑ Literacy

- ❑ Religious differences
- ❑ Habits, styles and cultures

Some of these points may seem obvious but it is very easy to try to apply what is already known about a domestic market to the countries to which we want to sell. Initially it is better to acquire information on a relatively few number of countries and not try to break into too many markets at once. The worst possibilities should be discarded immediately and focus given to the countries known best. A company will also need to consider other issues, such as:

- ❑ The potential market size.
- ❑ The population structure
- ❑ Storage and distribution facilities
- ❑ Import agents
- ❑ Local competition (what is already available in the product group – to what standard, price and range?)

The easiest market to penetrate and those with the biggest potential should always be selected first.

It would be best to sell a product without any modifications from that sold on the domestic market and so reduce your costs, however it is more likely that the product offer will have to be changed some extent, largely because of:

- ❑ Differences in consumer tastes
- ❑ Purchasing power (requiring an increase or decrease in quality supplied)
- ❑ Available technical skills

The following is a list of changes, which may be *forced* upon a company:

- ❑ Legal requirements – special produce standards
- ❑ Tariffs
- ❑ Nationalism – some countries may demand that a proportion has to be locally produced.
- ❑ Technical – measurements, calibrations.
- ❑ Quality specifications
- ❑ Taxation – related to size, types of packaging etc.
- ❑ Climatic differences

It pays to check out all these factors before shipping.

4.5.3 EU regulations for the import and export of fresh fruit and vegetables

The EU has established a set of common standards for a range of fresh horticultural produce. These provide a specification for the commodity and provide a simple classification based on quality and size. Standards have been established, amongst others, for the following fruit and vegetables:

Fruit	Vegetables	Salads
Apples	Artichokes	Aubergines
Apricots	Asparagus	Chicory
Cherries	Beans (other than shelling beans)	Cucumber
Grapes	Brussels sprouts	Lettuce
Kiwifruits	Cabbage	Tomatoes
Lemons	Cauliflowers	Chicory
Mandarins (and similar hybrids)	Celery	Sweet peppers
Oranges	Courgettes	
Peaches and nectarines	Garlic	
Pears	Leeks	
Plums	Onions	
Strawberries	Peas	
Avocadoes	Spinach	
Water melons	Broccoli	
Grapefruit	Mushrooms	
Raspberries		

For all products they must be:

- Intact
- Sound – products that are affected by rotting or deterioration and such they are unfit for consumption are excluded
- Clean and practically free of any visible foreign matter
- Practically free from pests
- Practically free from damage caused by pests
- Free of abnormal external moisture
- Free of any foreign smell and/or taste

EU standards apply at all stages of distribution and the produce must comply with the standards if it is to be traded between EU countries or imported into the EU. Produce may be monitored at EU border points or in many cases to authorised quality inspection bodies at the place of production and the country of origin. Products must also be imported according to defined classes of extra class, class 1 or class 2.

Extra Class

This is produce defined as superior quality, and comprises of a single variety, free of pest and pathogen injuries, wounds, scaps and of the same colour and size.

Class I

This is produce of good quality, and comprises of a single variety, with a small tolerance to pest and pathogen injuries and a 5 % differentiation of colour and size.

Class II

This is produce that is suitable for trade but cannot be classified in one of the above categories.

For packages containing different types of fruit and vegetables products they must be graded and classed at the same class relevant for their product type. Class specifications are clearly laid down for each product. The example of tomatoes includes specific classifications: round, ribbed, oblong or elongated, and cherry tomatoes (including cocktail tomatoes). In the case of trusses of tomatoes, the stalks must be fresh, healthy, clean, and free from all leaves and any visible foreign matter. They must be free of cracks and visible greenbacks, have no excessive protuberances or scars the level of which is clearly defined according to the class and may be presented as individual fruits, with or without calyx and short stalk or as trusses of tomatoes.

These requirements are very specifically defined and exporters need to be clearly aware of the regulation on individual fruits or vegetables and before sending them for export and incurring unnecessary cost. Exporters will also need to be aware of packaging and labelling requirements laid down by the EU and which are similarly well defined.

Recommendations, rather than legislation, for other produce can also be found in the UN/ECE Standards for Fresh Fruit and Vegetables (ECE/AGR/55 United Nations, New York 1980-1987) of the International Standardisation of Fruits and Vegetables, OECD, Paris 1962 -1987.

EU import and export tariffs

The EU Common Agricultural Policy (CAP) provides for a system of common prices within the EU trade area. It is intended to secure food supplies and protect domestic producers from world price fluctuations. The CAP primarily covers a wide range of basic products including fruit and vegetables.

When world market prices are lower than those of the EU a charge called a levy may bring the price of imported product from non-EU countries up to the level of EU prices. Other charges such as countervailing (fixed) and variable charges (primarily to support EU processed products subject to varying raw materials costs) may also be imposed in addition to normal excise duties and VAT. The frequency of changes varies between products.

Export refunds may also be paid to EU based exporters to enable them to reduce prices. In some case export levies may be imposed on exports to deter outward flows. A system of quotas are also in place for certain products and from certain non EU countries. When this quota is exceeded no further product may be imported.

In most EU countries an Intervention Board is responsible for administering collection and refund amounts from traders. In practice customs administer the system. Information on CAP controlled products and procedures can be obtained from both customs and the Intervention Board.

A trader wanting to import agricultural and food products (fresh or processed) into the EU would firstly need to find the commodity code number for the product they want to

import from the classification officer of customs. They would then approach the Intervention Board to ask whether an import licence is required. They would also register as a trader wishing to import into the European Union. If a licence is necessary they would complete an AGRIM import licence application form and fax it to the Intervention Board accompanied by a bank guarantee that the licence will be used according to EU regulations.

Some licences are valid immediately. Others are subject to a delay of several days in order to enable checks to be made in Brussels about quota levels. Once the licence is valid the importer lodges an entry with customs stating what quantities of product they intend to import. A licence is issued for a fixed quantity of product, valid for a certain period of time. The licence has to be presented by the importer to customs to clear the goods. Customs stamp the back of the licence and write the quantity imported and the date. More than one shipment can be made within the quantity and timescale of the licence.

An import licence may not be required, but in all cases the Intervention board would direct the importer to the Department of Health to find out any health (phytosanitary) requirements which will need to be met. They would also be directed to the Ministry of Agriculture about any levies or duties which may be payable. The trader would also probably (voluntarily) consult the fruit, vegetable importers association for any trade advice.

4.5.4 Packaging and labelling

Packaging is subject to the pressure of standardisation but also to special market needs and legal requirements. Both the protectional and promotional aspects of the packaging will also have to be considered. In particular:

- ❑ The climatic conditions in the market place and in transit.
- ❑ The handling the product is going to receive
- ❑ The time the product is in the distribution chain and its perishability
- ❑ The customer usage rate and consequent storage time

Packaging may also have to change in order to promote your product in a foreign market in terms of:

- ❑ Package size
- ❑ Packaging type
- ❑ Packaging colours
- ❑ Legal requirements
- ❑ Language and literacy levels
- ❑ On-pack information and labelling

Exporters need to be aware of labelling regulations in every country. These vary widely but in the EU it usually requires each package to be labelled at each end and on the top with the following information:

The identification of the packer/grower and/or dispatcher, including the name and address or officially issued and approved code mark

The nature of the produce e.g. tomatoes or trusses of tomatoes and the commercial type if the contents are not visible from the outside and the name of the variety (sometimes optional)

The packing date (25-11-03 etc.)

The origin of the produce, including country of origin and, optionally, district where grown, or national, regional or local place name

Commercial specifications, including the class (Extra, I, II etc.) and size expressed as minimum and maximum diameters (if sized) or the word unsized where appropriate or the numerical count or net weight (50 numbers, 32 kilos, etc.)

The quality assurance or control code (harvest date information, bin number, packing time, packer number, inspector number and gassing room number (such as for tomatoes or honeydew melons))

Other details may also be defined for certain fruit and vegetables such as, minimum sugar content or an indication of post harvest treatments. The condition of the product and packaging must be such as to enable them to withstand transport and handling, and to arrive in satisfactory condition at the place of destination. The materials used inside the package must be new, clean and of a quality that will avoid causing any external or internal damage to the produce. The use of materials, particularly paper or stamps, bearing trade specifications is allowed, provided the printing or labelling has been done with non-toxic ink or glue. Some types of packing materials are banned.

There may be other very specific requirements and these need to be checked before consignment or label printing. In addition the label must communicate information to customers to make it easier for them to understand and use the product and to encourage trial. Labels need to be prepared in an appropriate language. Buyers may also request using their own format or design. Labels should always be checked or written by native speakers and not simply translated.

4.5.5 Organising export sales

For the sake of clarity there is a need to distinguish between customers and consumers. A customer in export is best used to describe the person that orders and to whom the goods are delivered and who pays for them.

Sometimes customers will also be consumers but with most agricultural and food products the importer is not the consumer and in most cases the consumer can be a long way from the original importer. In some cases Governments, major wholesalers and retailers or processing companies will only deal direct with the original supplier and in this case cutting out intermediaries. And understanding the different elements of the chain is very important if the correct sales and distribution channels are to be selected.

Many companies feel that it is well beyond their capabilities to deal direct in overseas markets and decide to leave exporting in the hands of others as far as possible. There may be several opportunities that can be exploited without setting foot outside the export country and including:

1. **Manufacturers.** This simply means selling the product to a manufacturer already exporting from the home country. As long as the product meets overseas specifications and other conditions then there are few worries. A great deal of export trade is conducted in this way. The product is exported quickly and at low risk and cost. This type of trade often involves complimentary marketing to the manufacturers own production and this also helps to extend their own range. Sometimes this can lead to conflict and often a more suitable approach is to develop an export consortium, particularly for major projects.
2. **Confirming houses and indent houses** represent the buyer abroad. A confirming house acts as a principal who can deal direct with an order an overseas buyer places with the exporter. They finance the transaction, accept the short-term risk and are paid a commission by the buyer for this service. Indent houses act as a principal purely on behalf of the overseas buyer and buy against open briefs on orders received from the buyer and for particular products or services or from particular suppliers.
3. **International trading companies** operate at both wholesale and retail levels of distribution and effectively offering a country wide service on similar terms as export merchants. These companies may be an association of smaller trading organisations co-operating for international export.
4. **In country buying offices.** Many overseas buyers will maintain their own buying offices in country with considerable strength and buying power. It is useful to know who these are and contact them directly.
5. **Joint ventures.** Joint ventures can be established either by means of licensing or franchising. The term licensing covers a wide range of agreements relating to the sale or leasing of industrial or commercial expertise by one party or another. Items covered by a license could include:
 - ❑ A patent covering a process
 - ❑ Manufacturing know how
 - ❑ Technical advice and assistance
 - ❑ The use of trade mark or name

Franchising is merely a form of licensing whereby:

- ❑ The franchiser provides a standard package of components plus management and marketing service and advice
- ❑ The franchisee provides the capital, market knowledge, personal involvement, premises etc.

The advantages of licensing and franchising are:

- ❑ Market access, particularly where markets are closed or difficult to access due to high duties, import quotas or prohibitions, freight charges or entrenched competition
- ❑ Little capital investment and so it should make a good return on capital employed
- ❑ The local marketing organisation makes use of existing distribution and sales networks

The disadvantages of licensing and franchising are:

- ❑ Competition because when the agreement expires the exporter will have an established competitor
- ❑ Market exploitation as the joint venture partner may not exploit fully the potential and so attract competition
- ❑ Revenues royalties can often compare unfavourably with what might be obtained from the companies own manufacturing operation or other types of agency agreement
- ❑ Quality control issues as the products may be sold under the local partners own brand name

Finding and working with a good partner takes time to produce results, but the arrangement may run for years. Setting up a joint venture needs more care and attention than setting up an agency agreement, with additional considerations, in relation to bankruptcy, tax and legal assignments.

6. **Export merchants and distributors** that act as a principal for buying and selling on their own account. These are effectively wholesalers operating overseas and have their own salespeople, stockists and often branch offices. They are normally remunerated by the difference between the buying and selling price. They tend to specialise in certain territories and with a particular range of goods.

The advantage of these merchants and distributors are that:

- ❑ The exporter can take advantage of the excellent knowledge of the merchant/distributors markets, systems and contacts
- ❑ There is no need to finance the export transaction, including documentation, shipping and insurance and there is no credit risk
- ❑ It involves very little management time
- ❑ The overseas merchant/distributor can assist in barter arrangements

The main disadvantages of merchants and distributors are that:

- ❑ The exporter has very little, or even no, control over the end market and products can be dropped quickly
- ❑ The exporter develops no goodwill in the country and upon which to develop or expand
- ❑ The merchant/distributor may stock a number of competitors lines and not strongly promote a particular product
- ❑ The merchant/distributor normally looks for relatively rapid financial returns and does not consider long term financial investments

There are 4 main types of merchant/distributor and it is important to understand how each one operates:

- ❑ **Sole merchant/distributor.** Where a sole merchant/distributor is appointed no other will be appointed in that territory. However there is still the option to supply direct.

- ❑ **Exclusive merchant/distributor.** Even the exporter is not allowed to sell within the territory. The contract will refer specifically to a product or product range.
- ❑ **Non-exclusive merchant/distributor.** In this case the exporter can also sell directly and appoint other merchants/distributors in the territory.
- ❑ **Selective merchant/distributor.** This system involves the use of approved dealers with particular support services, equipment and facilities in line with exporter policy, standards and procedures.

6. Export agents solely represent the exporter. These agents may buy and re-sell on their own account or else find orders and complete all the paperwork for a company for agreed rates of commission. Agents may operate internationally or within agreed territories.

An agent may be defined as the legal relationship which exists, when, a person or company is paid by another person or company (principal) to bring a contractual (sales) relationship with a third party. Normally the legal title of the goods never passes from the exporter (principal) and the agent receives a commission by way of remuneration. Agents are often confused with merchants/distributors, but they carry out a totally different function. A merchant/distributor is classified as a customer who has been granted exclusive or rights to *purchase and resell* a range of products or services in specified areas or markets.

The benefits of agents are the same as for merchants/distributors but in most cases the exporter remains responsible for all export finance, credit risks, shipping insurance and export documentation, although some specialist export agents may offer a complete management service and in effect becoming the export department for a company. They may even use the company name and letterhead and require a worldwide brief and exclusivity on territories. Even so the exporter does maintain some control over the market compared to other approaches and the agent is simply paid a commission on sales and an annual retainer for services.

It is important to check carefully the type of agent required and then work out the options and potential costs. Agents vary considerably in terms of size and services offered. They may be individuals, partnerships, or small companies specialising in representation. They may also be large-scale traders, trading houses or manufacturers as described above. There are four main types of agent and it is important to know what each one does and what they are responsible for:

1. **Commission agent.** The commission agent sells with the aid of samples and/or catalogues. They do not (or should not) hold any stock. An agent merely passes orders to their principal (exporter) who in turn effects delivery and collects the money or payment.
2. **Stocking agent.** This type of agent also stocks product and may provide storage and handling facilities. However the agent still does not take title to the goods. This type of agent expects not only commission but also a fixed sum to cover storage and handling.

3. **Agency with specialist support facilities.** This agent may provide additional services, such as fruit de-greening or packing and used in agreement with the company.
4. **Del credere agent.** This is not so much an agent but rather a contractual arrangement that could apply to any agency agreement. Normally when working through a local agent you will also get to know the credit risk of customers. A del credere agent takes on a credit risk and agrees to pay the company if the customer defaults. Such an agent is likely to ask for a higher rate of commission to compensate for the risk. In unfamiliar countries a del credere agent can be less expensive than taking out credit risk insurance.

Generally agents can be more closely controlled than merchants/distributors. They must market the products on the terms stipulated by the exporter who has the right to accept or reject any order generated by the agent.

However it is a matter of commercial consideration rather than a legal issue that determines whether an agent or distributor is required including whether:

- ❑ It is important for stocks to be held
- ❑ There are already many competitors or suppliers of the product on the market
- ❑ There are costs of paying compensation to an agent if the arrangement does not work

4.5.6 Recruiting and working with intermediaries

There are a number of options for identifying potential partners and include:

- ❑ Reliable personal contacts
- ❑ Chambers of commerce
- ❑ Banks
- ❑ Trade associations
- ❑ Agents associations
- ❑ Directories
- ❑ Advertising in appropriate journals
- ❑ Export trade representative services
- ❑ The Internet

However at some stage the company representative will have to visit the country and companies lacking the financial or management resources necessary to visit should ask themselves whether they should really be thinking about export. The primary reason for a visit is to meet candidate agents/merchants or distributors and:

- ❑ Talk to managers, sales persons, office and back up staff
- ❑ Talk to customers who will be buying from the agent
- ❑ Get bank and trade references and look at the extent of the agencies interest in the product
- ❑ To find out who owns it and obtain the career history of the management
- ❑ To find out what other agency agreements they have and the levels of success achieved and the area to be regularly covered

- To find out the number of sales people, their experience and frequency of calling on customers
- To find out the knowledge of the local company and their marketing competence

Any competent potential partner will also want to have the fullest possible information about the exporter who will need to draw up their profile in the form of a selling document. The profile should cover not only the usual or obvious subjects such as the product range, number of employees, factories, office etc. But also the companies recent performance and plans, the special selling points of the product, the recommended marketing approach and information on any help the exporter will give the agent such as training, advertising or literature.

When a suitable agent/merchant/distributor is found, the exporter will need to conclude a formal legal agreement. This should be as short and simple as possible but should contain certain essential points. For agents these are:

- **Parties to the contract** – Where they are and their capacity to contract
- **Products** – Definitions of the products subject to the agreement – now and in the future
- **Territory** – A proper definition of the territory in which the agent is entitled to act
- **Exclusivity** – Will the agent have sole and exclusive rights to trade the products? Will the exporter have any rights to operate directly in their region? Will the agent have any rights to receiving commission on orders placed directly with the exporter?
- **Rights and duties** – What level of sales and marketing assistance is to be provided and what information should be given to the exporter? To what extent must the agent comply with the exporter instructions on prices and conditions of sale? Is any minimum turnover to be stipulated?
- **Commission** – It is vital to get this straight at the beginning because arguments over financial matters must be avoided. There will be a need to agree the percentage rate of commission, the variations for different origins of orders and the basis of calculations for commission (Cif, Fob etc.). There will also be a need to agree when commission is to be paid e.g. following receipt of goods, delivery of an order or payment by the customer as well as finalising what happens in the event of cancellation or bankruptcy of a customer and the dates by when the commission has to be paid e.g. quarterly
- **Duration of the contract** – The date the agreement comes into effect and the expiry date will need to be stated
- **Termination** – Provisions whereby the contract could be terminated before the natural expiry date e.g. breach of contract or bankruptcy
- **Language** – As the contract which probably will be translated into another language it is important to state which is the authentic text
- **Law** – The agreement should state which national laws govern the interpretation of the contract. In some cases regardless of what is agreed by the two parties, the law of the agents country may still apply

When finalising the contract advice from a lawyer who knows the laws of the agents country and trading style should be sought. This may seem costly but should be treated

as insurance, because the costs if things go wrong could be significant. In the European Union commercial agents regulations are directed by EC directive 86/653.

4.5.7 Building an export quotation

Whatever pricing strategy is adopted and all prices must be set with cost considerations in mind. Some organisations base their export prices on domestic prices plus suitable additions for freight, duty, mark up, etc. The problem with this approach may be that the domestic price contains elements that do not apply to a sale abroad. Equally export sales may have costs not found in domestic markets.

Having arrived at a basic factory and market price the organisation will need to decide on which international terms of delivery they will use. The terms of delivery will inform the buyer what is included in the price, the duties of both the seller and the buyer, when and where the delivery of goods will take place and most important, when title of them will pass to the buyer. INCOTERMS 2000 is the international standard that defines precisely the terms of delivery. The correct INCOTERM should be agreed between the buyer and the seller prior to delivery and is the term included in all documentation from quotation to delivery.

The best approach is to quote as the customer requests and add on the extra costs as required under the terms of the delivery. If the buyer has made no request then the exporter chooses how to quote. Most exporters quote INCOTERM FOB (free on board) simply because it gives a great deal of flexibility in delivery and many customers like it because they save foreign currency by using their own shipping line or by organising their own insurance. However some exporters prefer to quote in CIF (cost, insurance and freight) because they can earn extra by doing so.

Careful examination of the terms of delivery is important as it is sometimes surprising how much needs to be added above the ex-works price. Failure to address what might seem to be minor items can lead to low profits or even losses. Exporters in particular tend to forget the possible costs of:

- ❑ Import or export duties
- ❑ Loading and landing charges
- ❑ Internal distribution and storage costs
- ❑ Distribution, wholesale or retail mark ups, local turnover or sales taxes
- ❑ Credit costs
- ❑ Forward exchange covers
- ❑ Import and export paperwork costs, such as import certificates or consular fees

Firm prices need to be quoted as customs officials are usually suspicious of discounts and sales below domestic market prices (dumping) in any case is probably unlikely to be worthwhile.

The first instinct of a new exporter is to quote in their own currency and this provides two major advantages:

- ❑ It is simpler from an administrative point of view
- ❑ The risk of any exchange variations is borne by the customer

However the customer may not be prepared to take such a risk and asks for a quotation in their own currency so they know exactly how much they are paying.

Currency fluctuations have to be considered carefully and quotations can be made using spot or forward rates. *Spot rates* are current rates of exchange. *Forward rates* are deals to be completed some time in the future. In order to avoid receiving less than is anticipated (due to currency fluctuation) a company can make a contract with their bank to sell the currency forward and it is this rate that is used in the quotation. Most major international currencies can be bought and sold for several years ahead. If the company does not use a forward currency exchange they can make gains but equally they can make serious losses. For most trading companies the main aim is not to profit on exchange movements but to trade profitably and securely.

Even so a forward exchange contract still does not offer complete protection against exchange risks. The contract matures on a fixed date, normally the date on which payment is due to be received by the buyer. If there is a delay in payment (or worse non payment) the exchange risk is borne by the exporter. If the credit risk is insured there will be no problem.

Having decided which currency to quote in, the company will have to decide what period of time the quote will remain operative, either by giving a specific date or by stating that the price will be that at the date of despatch. Quotations are made either by having a price list or by stating the details on a proforma invoice. If the company is quoting ex-works or FOB it should include details of weights and quantities and estimated freight and insurance charges.

The company will also need to include details of:

- ❑ The normal method of payment
- ❑ Any clauses which retain use of a trademark (or patent of any)
- ❑ A statement to the effect that any weights or dimensions are purely for transit purposes
- ❑ That delivery dates are given in good faith
- ❑ That damaged goods will be replaced free of charge
- ❑ That the company hold the customer responsible for obtaining any import licences

Sometimes companies may find that they are asked to take goods in payment for goods. Counterpurchase is the most common, whereby an exporter is asked to buy goods from the importer in exchange for goods supplied and representing some or all of the total value of the shipped order. Unless the goods on offer are what the exporter would normally buy they are unlikely to want them. However a company may approach a factor who will arrange to sell the goods offered by the importer. The factor will give a price for the goods that can then be used for quoting to the importer.

Major exporters use this approach. Cadburys Schweppes use international purchasing resources in order to develop Eastern European markets. Its Swedish subsidiary manufactures tomato paste using deliveries of tomatoes from Bulgaria as part of a deal enabling sales of company products into the country.

But normally at least part of the payment in cash and checks are made in advance that they can dispose of the products on offer. The company will also need to carefully check that they will not contravene any import controls. Other possibilities may include:

- ❑ Compensation trade, contra trading or reciprocal trading. Where the company needs to accept payment or part payment in goods from the buyers country. The deal is entered into as two separate cash transactions entered into simultaneously
- ❑ Compensation/buyback is where the exporter may agree to buy back some of the finished product
- ❑ Switch trading where the exporter may eventually be paid by someone in a third country

4.5.8 Deciding on which terms of delivery to use

Terms of delivery will inform the buyer what is included in your price, when and where the, delivery of the goods will take place, the duties of the buyer and the seller and most important when title of them passes to the buyer.

In international trade there are a number of these terms which have been defined and codified by the International Chamber of Commerce under the heading Incoterms. Incoterms are updated and revised every 10 years. Incoterms 2000 should be added to your quotation as they only apply legally when both parties agree. The most common Incoterms are;

Ex works price (EXW).

This is the most basic quotation. The buyer agrees to buy the goods from your warehouse and cover all transport, insurance and duty costs themselves. Make sure you have covered in your price any costs of product modifications and other company overheads relating to the export order, including agents costs, export department and packing costs.

Free alongside ship (FAS) or free carrier (FCA).

Goods are delivered to a named port or place. The exporter deals with export formalities but the buyer is responsible for loading on to the agreed method of transport.

Free on board (FOB).

The most common form of delivery with a named port added. The buyer has the option of organising the handling, insurance and transport themselves. You pay for the documentation, which will get the goods *loaded* on to the selected method of transport and at the named port. Responsibility for the shipment passes to the buyer as soon as they cross the ships rail or enter the agreed form of transport. Similar terms apply for aircraft **FOA** or if to an inland clearance depot (**ICD**) the term is free carrier named port (**FRC**).

Cost and freight (C&F or CFR) For container shipments delivery carriage paid (DCP).

This means that you as the seller pays all freight charges but not the insurance. The buyer takes risk when the goods are on board ship.

Carriage paid to (CPT)

The exporter is responsible for delivering to an agreed place to be handed over to another agreed carrier or freight forwarder. The exporter pays for all costs and freight charges to the named place.

Cost, insurance and freight (CIF) for container shipments (CIP) and CPT.

This is the same as CFR except insurance is also paid by the exporter. A destination port is normally added in the quotation.

Delivered at frontier (DAF)

Delivered at frontier and cleared for export but not import. The seller pays all freight costs to the named place.

Delivered ex ship (DES)

On board ship at the named destination port. The seller pays all export costs but not unloading charges.

Delivered ex quay (DEQ)

The goods are delivered on to the delivery quay. The seller pays all costs and freight, unloading and import clearance and states whether duty will be paid or unpaid.

Delivered duty unpaid (DDU)

At the named destination place in the country of import. The seller pays all the costs to the named destination place but not duties, taxes or import charges.

Delivery duty paid (DDP).

The exporter pays all the charges and carries the risks until the goods reach the buyers warehouse. This will include payments of all duties.

Many exporters may feel overwhelmed by the amount of required documentation and may allow a third party (freight forwarder) to assume responsibility for this part of their business. The work of a freight forwarder will include;

- ❑ Advising you of any special requirements regarding the marking of your cargo
- ❑ The packing of your cargo
- ❑ Any customs requirements abroad in respect of documents.
- ❑ Working out the best route for your shipment.
- ❑ Booking space on your behalf and paying for it since most freight is payable in advance
- ❑ Arranging transport to the docks or airport (or providing instructions for your own staff)

Provided you supply the freight forwarder with basic information about the shipment they will also complete and despatch the standard shipping notes, bill of lading and relevant customs documentation. A particular advantage may be that as a regular exporter they are able to obtain fast track status. Some freight forwarders will also insure goods and offer their own transport possibilities. You will probably have to pay between 3-5% of the total freight costs plus out of pocket and document expenses.

Always check your prospective forwarder thoroughly. They can become an extension of your organisation and a potential partner. Make sure they are interested in both you and your business.

4.5.9 Documents needed for export

The standard documents needed for the export are the following:

Bill of lading

Issued by an ocean carrier, it is a receipt for goods and contract for carriage, it gives title to the goods and signed copies are proof of ownership.

Airway bill

Equivalent to a bill of lading. The airway bill and the title to the goods automatically go to the consignee who can take possession when goods arrive.

Proforma invoice

A delivered cost estimate usually required for a successful sale

Commercial invoice

Used by the exporter to charge for the goods sold. Exporters use their own forms, but the contents should include standard information (date of issue, name and address of buyer and seller, contact number, description of goods, unit price, number of units, packages, total weight, terms of delivery and payment)

Certificate of origin

Companies can, in some markets, claim a general preferential tariff treatment for your goods. This can be handled by a shipping agent and standardised forms are used

Phytosanitary certificates

Sanitary and other certificates are required for some types of products; examples include, plants, seeds, nursery stock and many other foods.

Packing list

Sometimes required to supplement the packing list

Export permits

From the Government of an exporter

Fumigation certificate

Some countries expect such a certificate for supply

* The documents above will vary from one market to another and from one product to another

4.5.10 Getting paid

There are a number of ways of improving the flow of cash, but getting paid on time is particularly crucial. Delays in payments will require maintaining higher levels of working capital and reduce overall profitability. It is important to keep a check on outstanding payments and to make efforts to ensure they are paid.

Immediate payment on delivery and in cash has obvious benefits but most buyers will expect other forms of payment and so one of the biggest worries you may have is the possibility of not being paid at all. You may get a status report that says that the buyer has funds, but that does not guarantee that you will get paid. The risk increases even more as you trade outside your own country or trading zone. For most importers pre-payment will not be acceptable, as they have little guarantee they will receive the goods according to the contract. An acceptable method of minimising risks for both parties is therefore required.

Your own fears can be minimised if you take sensible precautions from the beginning of any transaction. If you are to trade in anything other than cash and which involves being paid at a later date ideally you should establish your buyers ability to pay, rather than to worry later. Start as you mean to go on and make sure you keep to your procedures.

For major transactions, or if you deal for the first time in export markets or with a buyer you do not know always ask for and receive the name and address of your customers banker.

For exports make sure that the bank is capable of handling international and trade transactions. Your own bank should be able to electronically check on their status and will charge you for this service. Your bank will need to know:

- ❑ The full name and address of the buyers banker.
- ❑ The amount and length of credit you are enquiring about. Always enquire for a higher amount than the likely value of the order. This will provide a better credit status.

Be prudent and dont try to rush orders. Any procedure you adopt should be applied automatically to every new customer and customers accounts regularly reviewed and updated. You should make a note of any late payments by your buyers and produce a list of the age of all outstanding debts. Credit limits can be reduced as well as increased to reflect the amount of business activity and payment records of customers.

If there is genuine reason for non-payment and you know your customer well you need to carefully consider the importance of goodwill and long term business. Even so if you are trading on a regular basis make sure payments are made for previous shipments before sending further ones. Be particularly careful of a buyer who places reasonably sized orders and with no payment problems and suddenly places a particularly large order.

If you are not totally happy with the response you get from your bank you may also contact specialist agents able to provide a more detailed report on your potential buyer including:

- ❑ Ownership details
- ❑ Balance sheet information
- ❑ Credit payment record
- ❑ Description of business activities

For export trade you may be able to obtain this information from the own embassy commercial attaché.

Invoices. The basic document used for trade is an invoice. A pro-forma invoice is used as the basis for preparing a quotation for a customer and will have the words pro-forma written on to it.

During despatch commercial invoices are used mainly as record of goods shipped and a statement of the terms on which they are shipped. It will contain details of weights, marks and measurements, plus details of freight and insurance costs and the method of despatch.

For exports invoices will also be used for customs purposes when the customer receives the goods. Sometimes the commercial invoice need only be signed by the exporter to be accepted by the customs office of the import country as a true record of value and origin on which duty will be paid. In other countries this will not be enough and so a certified invoice will be required, through the local chamber of commerce or similarly acceptable certification body. This certified invoice will also become a certificate of origin.

Invoices will only be used for payment if you are giving your customer open account terms. That is you trust them to pay, at a later date, without any further documentation or where payments are made in advance of delivery. Over 80% of the worlds trade is handled on this basis. If you do this you will need to clearly lay down the terms on which you expect to be paid and contained in your conditions of sale e.g. one month following receipt of goods. In this case you send all documents directly to the buyer so they can receive delivery and you insure against any risk of non payment.

Documentary letters of credit. For exports you may decide you need an export letter of credit from your bank as a form of trade guarantee. The principle is quite simple. The buyer asks their bank to open a credit in favour of you and lays down certain conditions on which you will be paid. Normally these conditions outline that the goods are to be despatched according to their instructions and that the documents needed to get delivery are provided.

Normally the buyers bank will inform your bank of the credit availability and providing everything is in order they will guarantee you will get paid. This is acceptable to both the buyer, who will get product according to their specification and you will be paid.

However you need to ensure that the credit is *irrevocable* i.e. that it cannot be altered without the consent of both banks, the buyer and the exporter and that the credit is *confirmed* which means that the money has been credited to the bank in your country and not theirs.

Revocable or unconfirmed credit can create circumstances whereby the terms of the agreement may be changed without your agreement or money not be transferred to you, for example in the case of bank insolvency.

You may also come across other possibilities such as:

Transferable – This will enable all or part of the credit to be transferred to a third party.
Revolving – This may be used for regular shipments to the same buyer. This reduces documentation by not having to keep opening new letters of credit and allows money to revolve on a time or value basis.

Many exporters worry that letters of credit are complicated and expensive and they can be. More than 60% are returned by banks due to errors or omissions. This causes delay and costs money. When you receive a letter of credit make sure you do the following:

- ❑ Check it carefully to make sure you can fully comply with all its conditions.
- ❑ Make sure that the goods you are going to supply match exactly what is written or described on the credit.
- ❑ Check the total amount of the credit to see that it covers all you expect to receive. While you can be paid less you cannot be paid more.
- ❑ If a shipment date is specified, check that you can ship before that date.
- ❑ Make sure that you will be able to get all the documents required before the expiry of the credit, because nothing is paid if the credit is expired.

If there is anything you do not agree with ask the buyer to amend it and make sure that changes are made on both accounts. In particular look for vague terminology. All persons responsible for producing, packing and shipping goods should get a copy of the letter of credit to ensure mistakes are not made. You will also need to provide those responsible for preparing the documents, insuring the goods and handling the credit. Having despatched the goods and gathered all the documents specified in the letter of credit you take these to the confirming bank with a bill of exchange and you will be paid.

If in doubt about letters of credit, it is best to talk to the international division of your own bank in order to ensure you are properly covered. Don't leave anything to chance.

A bill of exchange. In some countries (such as France) it is not legally possible to use an invoice for exports and you will have to prepare a bill of exchange. This may be called a draft and can be prepared on anything, but plain or company letterhead paper is normally used. It is a demand for payment to be settled on demand or at a fixed or determined time in the future.

A bill of exchange will allow your customer to pay after delivery and enable you to allow credit but it ensures payment in full and on a due date. You can also use it to withhold delivery in the event of non payment. It is the exact opposite of a letter of credit because you make the draft and your bank forwards it to the buyers bank in another country. The bank then presents the draft to the buyer. If they agree to pay either then or at a later date they are given the relevant documents which allows them to take delivery. As a legal document a bill of exchange enables you to obtain payment.

There are two types of draft. A *sight draft* is payable as soon as the buyer receives the delivery documents. A *term* draft is payable in multiples of 30 days after the sight of the documents. The buyer agrees the due date and writes accepted on the documents to enable them to get delivery. This is then returned to your own bank and retained for full payment or sold at a discounted price for cash in order to improve your cashflow or interests on your borrowings.

Cheques. If you are paid by cheque you should ensure the cheque clears before despatching any goods. A *bankers draft* would be more satisfactory because it is a cheque issued and guaranteed by a bank, however they are often not used because of the risk of theft.

4.5.11 Cargo and credit insurance

Being in any business involves some risk. Being in the export business, however, will expose an organisation to higher risks than those encountered in the domestic market. Although there is no law that says that cargo has to be insured it is normally prudent to do so. The subject of insurance requires specialist advice from an insurance broker that is able to advise on the cover required for a particular purpose.

It is up to the owner of the goods to decide which risks to insure against and providing that risks are definable, virtually any risk can be covered except,

- ❑ Inherent vice (i.e. the damage cannot be avoided such as salt or sugar attracting damp)
- ❑ Illegal cargoes

The first period of inevitable risk is during transit to an overseas customer and when goods are in danger of being lost or damaged. Cargo will need to be insured to cover this. Carriers or handlers normally have insurance to cover their own negligence, but ultimate responsibility for seeing that the goods are insured rests with the owner. The terms of delivery on which to sell will determine or define who the owner is. For example on an FOB contract the exporter is the owner until the goods go over the rail of the ship.

What happens in practice is that goods are normally insured on a through basis, that is from the time they leave the exporter until they reach the importer. The importer should be asked what they want to do if it is not stated on the order. If they are paying by a letter of credit it will probably be specified as part of the conditions.

Goods should be insured for a stated sum known as the insurable value. This should be exactly the same as if the loss had never happened. Normally the insurable value is calculated as the CIF value of the goods plus 10% of the value. Insurers will pay full insurable value to whoever has the rights to the damaged original goods. The company will receive total or partial loss payments.

Some insurance policies cover virtually all risks, but others only provide basic cover and should only be used if it is very unlikely that goods will be damaged. It is important to check whether there are provisions for:

- ❑ Poor packaging
- ❑ Unseaworthiness
- ❑ Delays by strikes
- ❑ War riots and civil commotions

Insurance certificates form part of the total shipping documents. As a regular exporter a company is often able to take out open cover, which means they do not have to declare every shipment individually as long as they inform the insurance company in advance. In this way the company can issue its own certificate.

Having protected the cargo with insurance a company should also look at the ways of protecting itself against non-payment. If overseas customers fail to pay there may be

added complications not covered by a domestic insurance policy. There are a number of companies that specialise in covering credit risk and will cover periods for up to 10 years. Before providing a quotation potential insurers will need to know what the company wants to insure against. This may include;

- ❑ The insolvency of a customer
- ❑ A buyers failure to pay within 6 months of the due date for the goods accepted
- ❑ The buyers refusal or failure to accept goods which comply with the contract

There are also country risks that can be insured against and which may include:

- ❑ Difficulties or delays in getting funds out of the buyers country
- ❑ Intervention by a Government that prevents the contract being completed in part or full
- ❑ Civil war
- ❑ Cancellation or non renewal of an export licence or new restrictions imposed by the importer country

Insurance premium costs will need to be included in the agreed price with a buyer. As a guide companies are likely to pay around 1% of the total value to insure the product, but premiums can sometimes be reduced by using a good packer, freight forwarder and first class shipping lines.

CASE STUDY

VFM

VFM have offered a complete open net market I-Deal package since 1998 for the fresh produce industry. The system is an on-line system that can be run independently or integrated into an existing company system. Users are given access to a simple software tool that enables suppliers to send product and price data across the Internet and aims to enhance the flow of communication between all members in the chain.

I-Deal allows traders on screen access to all manner of information about the products they are buying while sitting on the phone. Growers, importers and buyers still want to talk about quality, distribution etc. but I-Deal is largely a confirmation tool as much a buying tool.

At the supplier end product availability and prices can be inputted into a standard excel document which is adapted to the system requirements automatically. The complexity of the system is very much down to the requirements of the user. Messages can still be sent by fax or by mobile phone or computer.

The I-Deal user can browse product availability, sell and buy product and arrange transport, as well as making requests for products. Everything sent can be customised to a company. Price trends and historical information can also be presented graphically. The company charge a monthly rate according to the number of users with which the subscriber wishes to have access.

Kenyatta international airport

In 2002 there was a major development in terms of the handling facilities at the Jomo Kenyatta international airport in Nairobi, Kenya. The facilities were upgraded to enable a total cargo capacity of 70,000 tonnes ever day, equivalent to around 250 trucks. It also included a huge cold store facility equivalent to 65 aircraft pallets. The facility is fully computerised providing real time global messaging systems for airlines, freight forwarding agents and customs authorities. International industry standard management and operation systems are in place and ISO 9002 certification is being applied for.

Fresh produce exports have increased enormously over the last 15 years and now accounts as the third foreign exchange earner in the Kenyan economy. The aim of updating the facility with a 20 million Euro loan was to move with the times and with customer demands. The primary aim being to ensure fresh quality produce was on sale within 48 hours of being harvested in northern European wholesale markets and supermarkets.

Flowers provide a useful example. Fresh cut flowers are harvested daily at the Oserian nursery and 6000 Kenyans work in an area equal to 100 football pitches. The flowers are cut early in the morning, packed in cardboard boxes and driven to the airport in chilled vans, where they are stored in airport facilities. In the evening the flowers are loaded onto cargo pallets and taken to the platform where planes land around 1200 midnight. Nearly 100 tonnes of flowers are placed into the chilled cargo hold per flight.

The next afternoon the cargo is transferred from Schiphol airport in Holland to importers chilled facilities. Here the boxes are unpacked, the stems trimmed automatically and the flowers are placed stems down in auction buckets with nutrition enriched water and driven to a special photo studio. Here they are photographed so that buyers can see the products on an electronic screen. Several hours later buyers scan the photographs and make their bids. One photograph after another flashes on to the screen and within one and a half hours more than 450 carts have been auctioned.

The process of harvesting, transporting and selling is seven days a week and 24 hours every day and requires sophisticated cooperation between growers, air freight operators, airports, airlines, importers and exporters. The upgrade and increased use of electronic technology recently introduced at Jomo Kenyatta international airport aims to further facilitate this process and to keep Kenya as a leading fresh produce exporter from southern Africa in the 21st century.

EXERCISES

Exporting

Select a country you do not know well. Using an Internet search engine find out as much information as you can regarding, climates, ports and distances, politics, tariff barriers, customs duties or quotas, currency restrictions and convertibility, the level of economic development and social conditions, language, literacy, religious differences, habits, styles and

Get as much information as possible on specific EU regulations for the trade of fresh fruit and vegetables

Identify 3 agents from an EU country. Find out as much as you can about their services and operations

Get a full list of documents needed for export of fresh fruit and vegetables from your country. Also identify freight forwarders able to carry out this work.