The Monthly Magazine for Food and Agricultural Exporters

AgExporter

United States Department of Agriculture
Foreign Agricultural Service

June 2002

Supplier Credit Guarantee Program: How U.S. Exporters Are Making It Work for them

TRADE SHOW OPPORTUNITY

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The Magazine for Business Firms Selling U.S. Farm Products Overseas

AgExporter

United States Department of Agriculture
Foreign Agricultural Service

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Contents

In fiscal 1997, USDA began implementing the Supplier Credit Guarantee Program (SCGP) to help meet fundamental changes in agricultural export trends and in U.S. exporters' and suppliers' needs. This issue examines the SCGP and how it has been used to support exports of various U.S. commodities in many countries.

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A Program for Modern Trade: USDA's Supplier Credit Guarantee Program

By Michael Conlon

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Since 1981, USDA has been promoting U.S. agricultural trade through the Export Credit Guarantee Programs (GSM-102 and GSM-103), and more recently through the Supplier Credit Guarantee Program (SCGP). These initiatives have proven a powerful and cost-effective means to promote U.S. agricultural exports.

Since their inception, the programs have supported exports of more than 50 agricultural commodities and products to over 60 countries. The export credit guarantee programs are the largest export assistance programs FAS administers. Over the last 20 years, they have supported over $67 billion in exports–or about 8 percent of all U.S. agricultural exports.

Export credit guarantees fostered a private-public partnership that has helped U.S. companies compete against aggressive foreign suppliers and maintain or increase exports to countries where financing would likely not be available without USDA guarantees. An example of note is Indonesia, where usage of the GSM-102 program increased by almost 500 percent in fiscal 2001 to $717.6 million, helping protect U.S. agricultural exports during a time of severe political and economic instability in that country.

Flexibility has always been a hallmark of the export credit guarantee programs. In fiscal 1997, FAS began implementing the SCGP to adapt to fundamental changes in agricultural trade and corresponding changes in the financial mechanisms used to pay for agricultural products. Many foreign markets have shifted from being predominantly state trading monopolies to private sector buyers with a range of specialized financing requirements.

In addition, the rapid adoption and widespread use of shipping containers for transporting agricultural commodities to foreign markets allowed importers to buy smaller volumes, with more frequent deliveries to match their sales and distribution patterns. Bulk commodity exports have slowed, while export market growth is increasingly concentrated in high-value or consumer-oriented products. Consumer-oriented exports rose from 10 percent of total U.S. agricultural exports in 1975 to 43 percent by fiscal 2001. Conversely, bulk commodity exports dropped from 76 percent of total U.S. agricultural exports in 1975 to 35 percent by fiscal 2001.

These export trends have prompted changes in the financial mechanisms used to pay for agricultural products. In the 1980s, bank letters of credit were frequently used to finance agricultural imports. However, as containerized transport and the shift toward high-value products resulted in smaller, more frequent shipments, opening international letters of credit became increasingly expensive relative to revenues from sales transactions. For smaller transactions, such as those under $150,000, buyers need a lower-cost payment mechanism.

Open account sales terms, through which exporters provide direct financing, presented a means of lowering both costs and risks for the importer. Competition in export markets allowed importers to demand more attractive payment terms from suppliers. To keep their customers, exporters frequently had to offer short-term credit by establishing open account sales for importers. However, this procedure exposed exporters to considerable financial risk, sometimes higher than they could accept. This situation curtailed exporters' ability to do business.

These shifting trends in agricultural trade and financing are reflected in the SCGP. While the traditional GSM-102 and GSM-103 programs are driven by bank letters of credit, SCGP is designed to provide payment guarantees for exporters and importers trading on open accounts. In place of a letter of credit, an SCGP transaction relies upon a promissory note issued by the importer to the exporter. USDA guarantees payment of the note for up to 180 days.

The SCGP is unlike any other credit guarantee or insurance program. Because of the fast-paced nature of agricultural commodity trade, USDA recognized that it could not perform a credit analysis of the importer in a timely fashion. Such financial analysis is time-consuming, and information is difficult to confirm in many emerging markets. By the time a decision could be made on the importer's ability to repay the debt, the sale would likely be lost to a competitor.

Thus, the SCGP operates on a risk-sharing basis. USDA offers a 65-percent guarantee of the value of the export, including freight coverage, with the exporter retaining the other 35 percent of the risk of default. Because the U.S. exporter bears 35 percent of the risk, the exporter is motivated to assess the credit risk posed by the importer. The exporter probably knows the importer best, and the two firms may have a business history.

THE SCGP HAS BEEN USED TO SUPPORT EXPORTS OF DOZENS OF HIGH-VALUE PRODUCTS, LITERALLY FROM DEHYDRATED SOUP MIXES TO NUTS.

Through the SCGP, U.S. exporters can extend longer credit terms to foreign buyers or increase the amount of credit available–without increasing their own risk of nonpayment. The program can be of particular benefit to smaller U.S. exporters that may not have sufficient sales volume to qualify for private insurance to mitigate their risk and leverage credit resources.

Sales under the SCGP have grown significantly since its implementation. In fiscal 1997, U.S. products exported under the SCGP totaled about $7.4 million to seven countries or regions. By fiscal 2001, U.S. products exported under the program had surged to $347.66 million to 24 countries or regions. For the first half of fiscal 2002, sales reached $355.38 million, already exceeding the fiscal 2001 total. If this trend continues, sales under this program will double in fiscal 2002.

5019

The SCGP has been used to support exports of dozens of high-value agricultural products, literally from dehydrated soup mixes to nuts. Frozen foods, including vegetables and potatoes, are included in the program. But SCGP is also facilitating sales of bulk commodities, because exporters and importers have found the program to be a cheaper, faster means of obtaining financing guarantees.

The SCGP has been a tremendous success. FAS is continuing to seek new markets in which to expand U.S. agricultural exports through the SCGP. Because of its flexibility, the program will continue to evolve to support the dynamic export market for agricultural commodities and food products. ■

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A Quick Comparison of USDA's Export Credit Programs

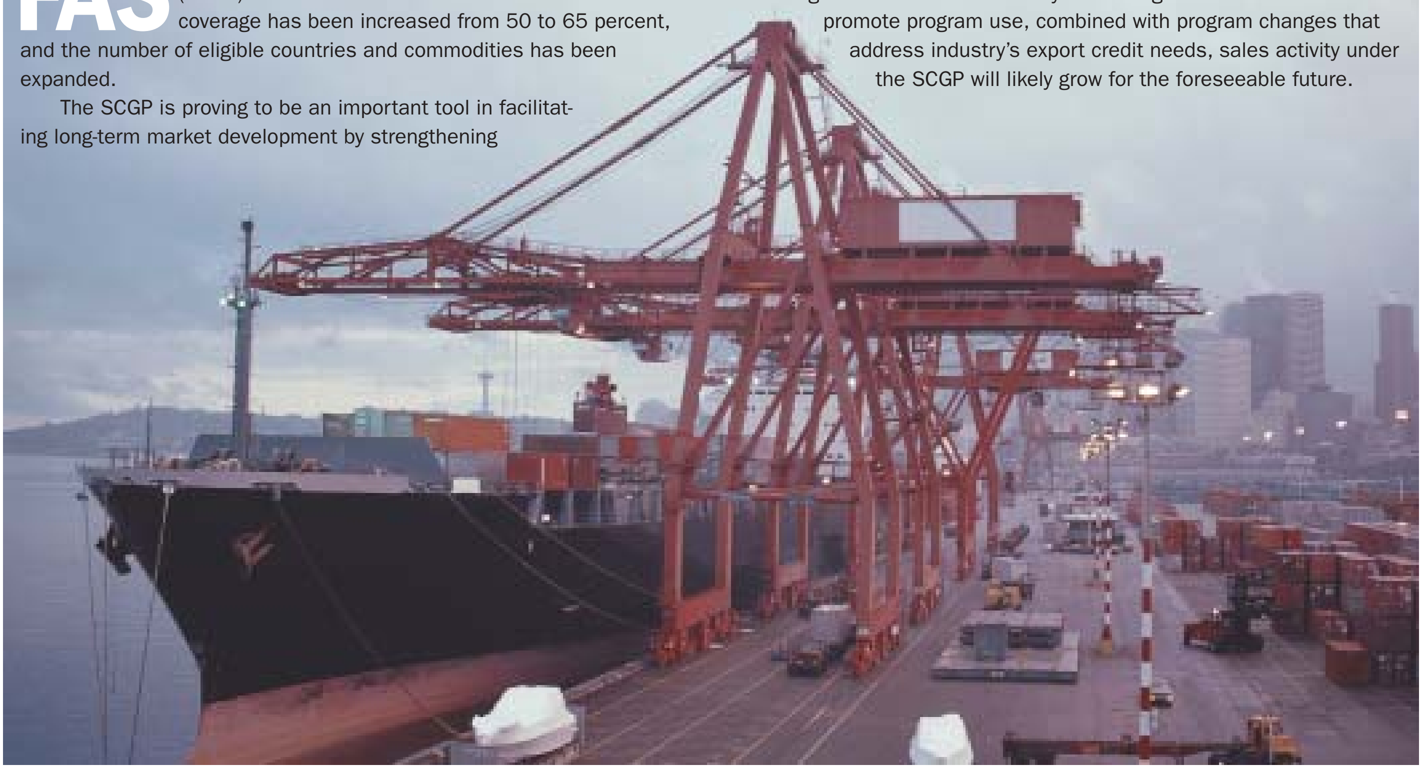
GSM-102	GSM-103	SCGP
The GSM-102 Export Credit Guarantee Program guarantees credit extended by U.S. banks to approved foreign banks.	The GSM-103 Intermediate Export Credit Guarantee Program guarantees credit extended by U.S. banks to approved foreign banks.	The Supplier Credit Guarantee Program guarantees short-term credit extended by U.S. exporters directly to their overseas customers.
Terms: Up to 3 years	**Terms:** 3 to 10 years	**Terms:** Up to 180 days*
Financing Instrument: U.S. dollar-denominated letter of credit	**Financing Instrument:** U.S. dollar-denominated letter of credit	**Financing Instrument:** Importer's promissory note
Coverage: 98% of principal and some interest	**Coverage:** 98% of principal and some interest	**Coverage:** 65% of principal and interest
Application: Most U.S. agricultural products	**Application:** U.S. livestock and genetics; occasionally used for bulk grains for specific countries	**Application:** Most U.S. agricultural products

*The 2002 farm law authorizes appropriations to cover repayment of credit up to 360 days. USDA will implement this change in individual markets on a case-by-case basis.

Evolution of a Program

FAS has modified the Supplier Credit Guarantee Program (SCGP) to enhance its effectiveness. Guarantee coverage has been increased from 50 to 65 percent, and the number of eligible countries and commodities has been expanded.

The SCGP is proving to be an important tool in facilitating long-term market development by strengthening business relationships between exporters and importers of U.S. agricultural commodities. By continuing outreach efforts that promote program use, combined with program changes that address industry's export credit needs, sales activity under the SCGP will likely grow for the foreseeable future.



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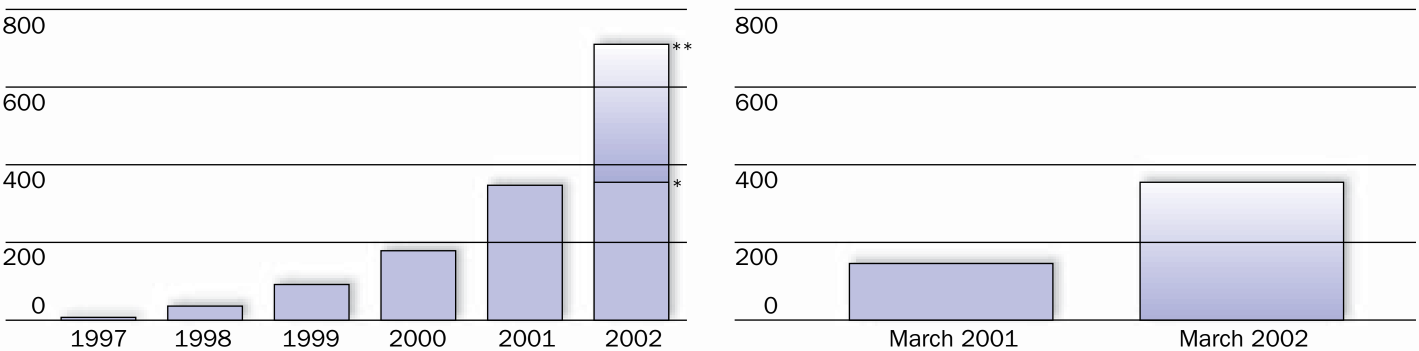
Charting SCGP Usage

By Ronald Perkel

Expanding U.S. Agricultural Export Sales Values

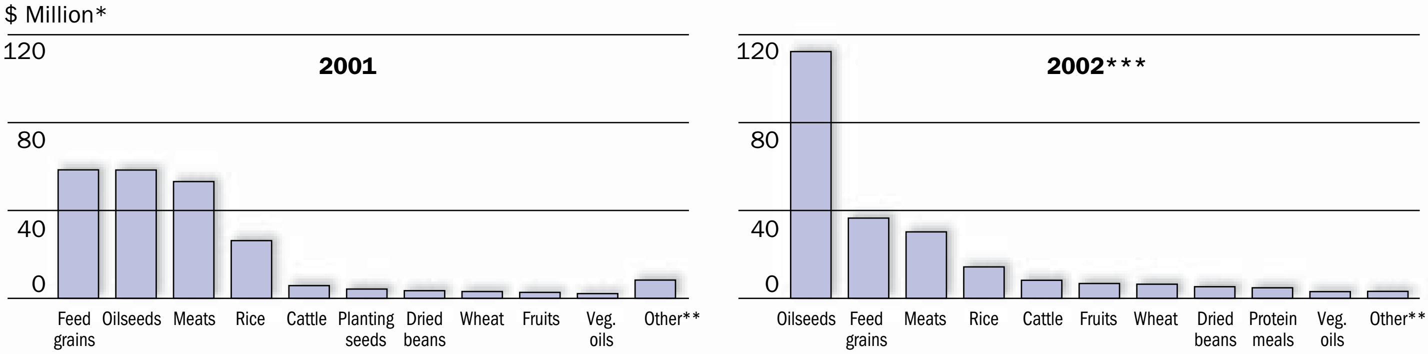
$ Million



*As of March 29. **Projected total.

Supporting U.S. Sales Across Several Major Commodity Groups

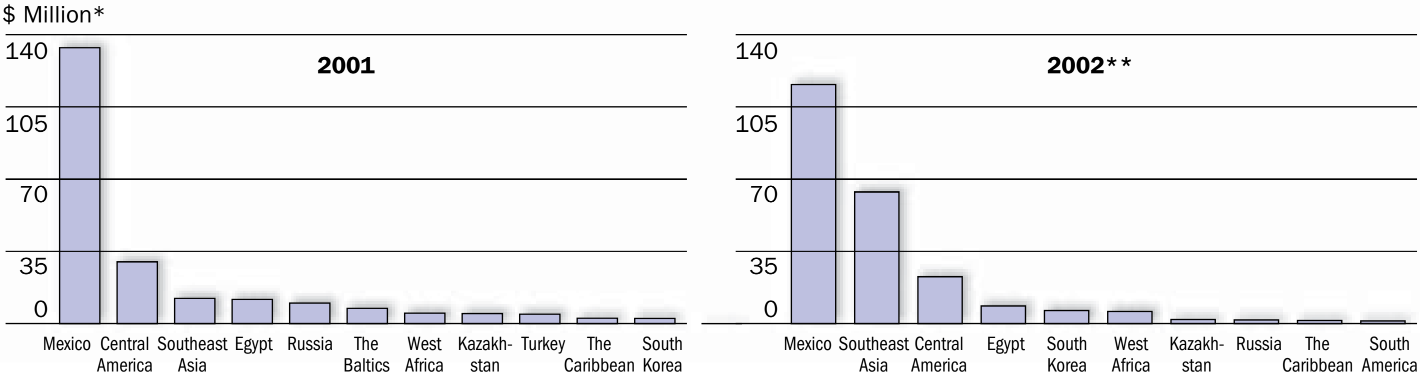
$ Million*



*Registrations—i.e., USDA guarantees of 65% of sales values. **Includes breakfast cereals, condiments, cotton, dairy products, fish, soups, snacks, tree nuts, vegetables (canned and concentrate), wines and wood. ***As of March 29.

Helping Finance U.S. Sales in Many Markets

$ Million*



*Registrations—i.e., USDA guarantees of 65% of sales values. **As of March 29.

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Some Export Financing Basics– Or, Terms of Payment


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By William S. Hawkins

Before undertaking export transactions supported by the Supplier Credit Guarantee Program (SCGP) or other assistance, the U.S. supplier or seller must assess the potential financial risk inherent in the sale. Once the seller has determined the risks that his or her company can afford, a method of payment is agreed upon between buyer and seller.

When considering which terms of payment will suit your sale, remember that every transaction involves two commodities: the product and the money. Because of the intense competition for export markets, offering the buyer attractive payment terms (low transaction costs, deferred payment terms, lower interest rates) is often essential to export success. Here are definitions of the terms used in this issue, especially as they relate to export credit programs.

Promissory note issued by the importer to the exporter is the payment instrument used in the SCGP. The promissory note must be payable in U.S. dollars. Participants should carefully review the provisions of the note. No changes can be made to the note, nor can another form of note be used.

Documentary letter of credit is a commitment from the issuing bank to pay the seller (as beneficiary) a specified amount, provided terms and conditions of the letter of credit are met. The U.S.-dollar-denominated letter of credit is the payment instrument used in the GSM-102 and GSM-103 Export Credit Guarantee Programs.

Letters of credit are generally irrevocable. Once the letter of credit is established, it cannot be revoked or changed without the consent of all parties, unless the original letter of credit specifically states that it is revocable.

The letter of credit distributes risk between the seller and buyer. The seller is assured of payment when the conditions of the letter of credit are met; the buyer is assured that he or she won't have to pay for goods if the documented conditions are not met. It is a common method of payment, especially in new seller/buyer relationships.

The letter of credit is, however, not without drawbacks. If, after shipment, discrepancies exist in the required documents that cannot be corrected by the seller, the buyer has the option to approve the discrepancies and pay for the shipment—usually at a discount—or to reject it. If the shipment is rejected, the seller retains title to the goods. A rejected shipment means that the seller must quickly renegotiate with the buyer, locate a new buyer (usually at a lower price) or pay for the shipment to be returned. Also, costs of a letter of credit add to the price of the product and can tie up the buyer's working capital or credit.

You, your banker and your freight forwarder should scrutinize the letter of credit to determine whether it is legitimate and whether terms and conditions can be met. Bankers and forwarders can also help prepare documentation and reduce the chance of discrepancies.

It is sometimes preferable to get a letter of credit confirmed by a U.S. bank if you are concerned the foreign bank may not be willing or able to pay you after shipment. A confirmation guarantees to the seller that the U.S. bank will pay the seller if the documents conform to the requirements of the letter of credit regardless of whether the foreign bank pays.

Another issue to consider is transferability. If the seller is acting as a broker for, or shipper of, the goods, and the seller does not wish to take title to the goods, the letter of credit can be transferred to the supplier, so both exporter and supplier get paid at the same time after shipment.

Standby letter of credit, like the documentary letter of credit, is a commitment or promise from the buyer's bank to pay the seller only if another business transaction specified in the standby letter of credit is not performed. For example, if the buyer and seller have agreed to an open account sale and the buyer defaults, the seller could present documentation to the buyer's bank certifying that the buyer failed to pay for the shipment secured by the standby letter of credit, and collect payment from the buyer's bank.

A standby letter of credit is frequently used as performance security when a seller bids on an international tender by a state trading company. In this case, the buyer may require the seller to open a standby letter of credit; if the seller is unable to perform the contract, the buyer can draw on the value of the standby letter of credit as a penalty.

Open account is a transaction in which the seller agrees to provide the goods to the buyer, who agrees to make payment at a specified future date. Payment by the buyer is typically made by wire transfer or check.

Open account is a high-risk method of payment for the seller. The seller must be confident that the buyer is well-established, has a long and reputable payment record, has good credit and is able to convert currency into U.S. dollars. Collection on delinquent payments may be difficult–and costly–if the obligation of the buyer to pay the seller is not well documented. Even when well documented, collection on delinquent open account sales usually requires legal action in the buyer's country.

Documentary collection is a method of payment whereby the seller uses a bank as an agent in obtaining payment. A documentary collection usually consists of: a collection instruction; financial documents to obtain payment for money; and commercial documents (e.g., invoices, bills of lading and quality certificates).

The collection instruction provides complete and precise instructions to the banks, including contact points for seller, buyer, and their respective banks, amounts and currencies to be collected, a list of documents enclosed, the terms and conditions for payment and acceptance of goods, charges, interest, the method of payment and instructions in case of nonpayment.

To collect payment from a foreign buyer using a documentary collection, the seller prepares collection instructions, a draft or other demand for payment and the related commercial documents which are sent through bank channels to the buyer's bank. The buyer's bank releases the documents to the buyer upon receipt of payment or a formal promise of payment.

The banks facilitating the collection have no responsibility to pay the seller should the buyer default. Documentary collection carries the risk that the buyer will walk away from the sale. If this occurs, it is the burden of the seller to locate a new buyer or pay for return shipment of the goods.

Documentary collections can be beneficial when shipping by ocean freight, because the ocean bill of lading is a negotiable document and acts as title to the goods. The shipping company will not release the shipment unless the buyer has the original bill of lading, which the buyer cannot obtain unless he or she agrees to pay the bank.

When shipping by air, the bill of lading is not a negotiable document and does not act as title to the goods–possibly negating the benefit of documentary collection. ■

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It's All in the Details

Paperwork presents considerable challenges, as everyone knows. It's essential to safeguard your company's interests through documentation that sets all the details down, and to check and double-check them. For example, the paperwork must include provisions for late or partial payment and remedies for nonpayment.

To avoid major pitfalls, here are some things to look for:

General:
- Documents inconsistent with each other
- Description of goods on invoice different from that in letter of credit
- Marks and numbers that differ between documents
- Absence of documents called for in letter of credit
- Incorrect or incomplete names and addresses

Draft (Bill of Exchange):
- Amount that does not match invoice
- Amount drawn on wrong party
- Incorrect endorsement
- Indeterminable or unclear date of payment

Transport Documents:
- Shipment made between ports other than those in letter of credit
- Signature on bill of lading that fails to specify on whose behalf it was signed
- Required number of originals not presented
- Bill of lading that does not show 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 different from that required by letter of credit
- Shipment under-insured
- Insurance not effective for date(s) in transport documents
- Insurance policy incorrectly endorsed

Soybean Exports Soar Under SCGP

By Mark Rasmussen

While many sectors of the agricultural industry have taken advantage of the Supplier Credit Guarantee Program (SCGP), the soybean industry has been particularly successful. In fiscal 2001, $117 million in soybeans and products were exported under the SCGP, and nearly that amount moved during just the first three months of fiscal 2002.

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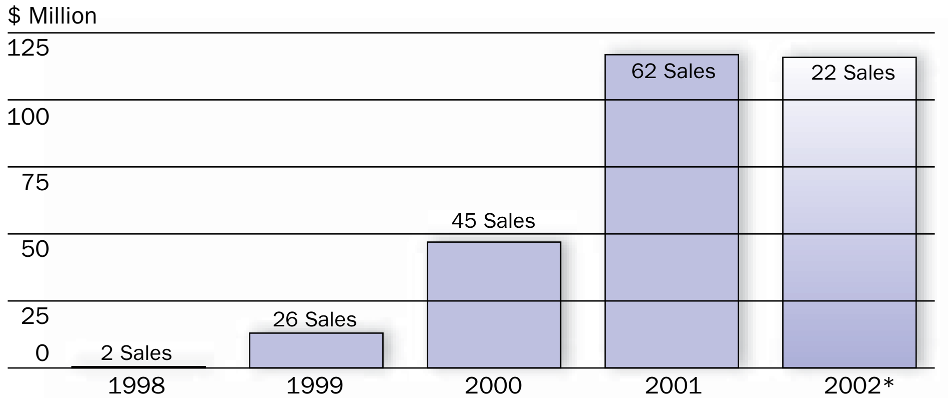
The SCGP Has Contributed Substantially to U.S. Soybean and Soybean Product Exports



*As of December 31.

The program has not only increased sales, but also encouraged exporters to expand lines of credit to importers. The average transaction size for soybeans and products under the program jumped from $230,000 in 1998 to about $1.9 million by 2001.

Most SCGP sales of soybeans and related products go to Mexico and Central America. However, program use is increasing in more distant markets, such as Russia, Indonesia and Egypt. ■

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Grains Make Gains With SCGP

By Joani Dong

Many firms that have exported grains using the Supplier Credit Guarantee Program (SCGP) stated that the program helped them secure more sales, especially for wheat, rice, corn and sorghum to Mexico. In the words of one exporter, "The program works well, and I believe it has encouraged sales that would not have happened without the program."

Overall, the companies expressed satisfaction, although some suggested that the guaranteed coverage and short-term financing period be expanded and fees lowered. ■

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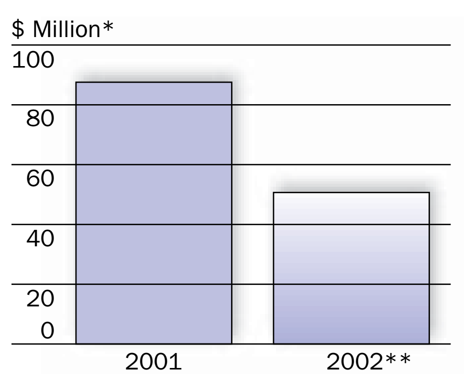
SCGP Has Also Supported U.S. Grain Exports



*Registrations—i.e., USDA guarantees of 65% of sales values.
**As of December 31.

Washington Winery Puts SCGP to Good Use

By Elizabeth Mello

Stimson Lane, Ltd., with vineyards sprawling across much of the Columbia Valley, is the largest wine producer in the state of Washington. The company began using the Supplier Credit Guarantee Program (SCGP) two years ago, when one of its managers was alerted to the program's potential benefits.

Since then, Stimson Lane, Ltd. has made substantial use of the program; the company has found the SCGP to be helpful in expanding sales to areas that pose a financial risk.

"It's export insurance," said Willi Bickmore, manager for Stimson Lane. "From a credit standpoint, it's an excellent collection tool. Importers have a greater incentive to pay when the government is following up if they don't."

So far, Stimson Lane, Ltd. has used supplier credit guarantees to ship precious Chardonnays and Merlots to far-flung destinations like Barbados, Israel, Mexico, China, South Korea and Taiwan. And they are looking for more places to use the program.

The winery finds the SCGP easy to use and the documents easily accessible from the Web site. "It's a good program," Bickmore said. "We'll continue to use it."

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SCGP Helps Move U.S. Nuts to Malaysia… And a Whole Lot More

By Ingrid A. Mohn

The product was U.S. tree nuts. The destination was Malaysia. The importer was unknown to Michael Hampel, logistics manager of **PM Global Foods, L.L.C.** But the potential for establishing a relationship to facilitate future sales of horticultural products like tree nuts and fruit juices was promising. Was it worth the risk to his company of extending short-term credit?

Hampel knew just what to do. He pulled out his well-worn application template for USDA's Supplier Credit Guarantee Program (SCGP), filled it out and sent it in. The application was approved, the risk was reduced, the sale was made–and PM Global had no problems getting paid by the importer. Another success chalked up to that grower of exports, the SCGP.

PM Global Foods is a 12-year-old international trading company specializing in food service and meat items around the world. PM Global has several sales and marketing offices offering customers such services as merchandising, coordination of logistics and documentation–all critical for successful global trading.

"The SCGP is a piece of cake to use," said Hampel, "and the FAS staff is always ready to help." PM Global exports millions of dollars of food products a year all over the globe, but no matter how many places they export, there is always a product it's never handled before being purchased by an unknown importer in a less developed part of the world. These are the opportunities to build new export markets for which the SCGP was created.

"This program allows us to open new markets in places where we otherwise couldn't afford the risk," said Hampel.

The author is a marketing specialist with FAS' Horticultural and Tropical Products Division.

Wood Product Companies Give SCGP Solid Endorsement

By Rachel Hodgetts and Jamie Rothschild

Of the several wood product companies that have recently used the Supplier Credit Guarantee Program (SCGP), all had good things to say and plan to use the program again.


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Parton Lumber, in the Appalachian region, uses modern logging practices to harvest high-quality logs and transport them to its sawmill for processing. It produces and sells an inventory of all grades and sizes of red and white oak, tulip poplar, various other hardwoods and some pine lumber to both domestic and export markets.

Parton has used the program twice: for a sale to Mexico and a sale to Portugal. Although Parton would have made both sales even without the program, the company liked the added security that the SCGP afforded.

The Atlantic Veneer Corporation of North Carolina has also used the SCGP. The company, one of the largest U.S. producers of hardwood veneers, manufactures flat-cut, rift-cut and rotary-cut veneers.

"The program has helped our company to provide leverage for existing lines of credit in Mexico and Brazil, and it has enabled us to expand to new markets such as Chile," said Marcio Murta, Latin America export manager for the company.

In Mexico, Murta estimates that the SCGP enabled Atlantic to increase its sales by more than 60 percent. Murta finds the program very useful in Latin American countries, where obtaining letters of credit is not always easy. He also believes that the program has helped his company to compete against European suppliers. "They can offer lower prices and have many financing options to choose from," Murta said. "We can't compete against that without this type of program."

The A&E Forest Products Group, a medium-sized lumber company in Georgia, has also used the SCGP to export its products. A&E had previous opportunities to export but preferred to sell domestically. However, after hearing good things about the SCGP from another company that had used it, A&E tried it out with a sale to Mexico. The added security of the program gave the company enough confidence to expand sales abroad and helped it to obtain increased credit from its bank.

A&E has used the SCGP five times and plans to use it for future sales, possibly taking advantage of the program's expansion to Western Europe. "We think it is a great program–it gives us an edge over other wood product companies," said a company executive. "Although we like to think of this program as our secret weapon, FAS should get the word out, since not too many other wood product companies are aware of it."

The experiences of these three exporters show that for your next export sale, you should consider using the SCGP for increased security or to offer your customers the best financing terms possible. ■

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A Roundup of SCGP Successes for Dairy, Meats and Poultry

By Lewis Stockard

Here's a roundup of successes and comments on the Supplier Credit Guarantee Program (SCGP) from the dairy, meat and poultry sectors.

PM Global Foods, L.L.C. uses the SCGP not only for horticultural products, but also to export beef, beef offals, processed foods and cheeses primarily to Mexico, Indonesia and Malaysia.

The 65-percent coverage has enabled the company to significantly expand its exports to new customers. "The SCGP has also provided tremendous peace of mind in dealing with new customers," said Michael Hampel, PM Global's logistics manager.

Tyson Foods, Inc. uses the SCGP primarily for poultry, but recently has used it for beef as well since it acquired IBP. Tyson uses the SCGP only to export to one Guatemalan customer at this time. "We wouldn't do that business without the SCGP, due to the high risk," said Matt Ellis, Tyson's international group controller. The firm is also considering using the SCGP to enter African markets.

"Mirasco, Inc. considers the SCGP to be a definite success in expanding our shipments of beef offals to Egypt," said Ibrahim Fahmy, the company's controller. The importer with which Mirasco does business is Egypt's largest distributor and supplies wholesale, retail and other trade sectors.

Conagra Poultry has used the SCGP for sales to South Africa, and is considering using it for Mexico. "However, we believe the 65-percent coverage to be too low," said Chaz Wilson, managing director of international sales. "We prefer GSM-102 because of its 98-percent coverage." But the company is considering using the SCGP because it's the best USDA currently offers for the term coverage.

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AJC International has used the SCGP three times for poultry meat sales to former Soviet republics Azerbaijan and Georgia. "The experience went well and the program is easy to use," said Tina Sorrel, a company executive. The coverage also helped the company to expand its credit lines with its U.S. banks and thus finance more exports. However, the high level of risk and poor-to-nonexistent collectability when an importer defaults remain serious concerns.

Simmons Food, Inc. has used the SCGP to export chicken leg quarters to Kazakhstan and might use either the SCGP or GSM-102 to export poultry meal feed to Indonesia and the Philippines. The company has no preference between the SCGP and GSM-102. "Both programs are very positive, and we wouldn't do as much business otherwise, if at all, without the coverage," said Todd Simmons, president, sales and marketing for poultry. ■

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A Seller Offers Candid Comments on SCGP

By Anne A. Almond

Meat Products International, Inc. has used the Supplier Credit Guarantee Program (SCGP) to export U.S. agricultural products. In this article, a top executive offers insights on the company's experiences with the program.

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How has your firm used the SCGP?

Samir Sidani, president, Meat Products International, Inc.: We use the program all the time–for noodle soup exports to Guatemala and also for meat exports to the Dominican Republic, and hopefully we will soon use it to sell to other countries.

At first, we used the program exclusively to help us increase our financing capability with our bank, which required that all export financing be insured. After we changed our banking structure to eliminate that aspect, we kept on using the program to reduce our credit risk with buyers.

What do you like about the SCGP?

Sidani: We like the program because it is simple to apply and, once you have the right procedures in place, it becomes almost automatic.

Was your buyer aware that the sale was taking place through the SCGP? Did your buyer like the program?

Sidani: Our customers are usually aware that we are using the program, because they have to sign the notes and pay premiums.

Buyers love this program because it allows them to get credit terms from the U.S. exporter without having to issue a letter of credit or pay in advance. We sellers like the program as well, because it opens new markets and new prospects for us.

My only concern is that we've never had to demand payment under this program. If this situation ever occurs, it will be the test to see whether USDA will work with the seller to make the payment quick and painless, or whether it will be a legal struggle over dotting all the *i's* and crossing all the *t's*, the validity of original versus fax correspondence and so on.

In general, so far our experience has been very positive. ■

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Talking Turkey About SCGP

By Robert Hanson

Despite the importance of the GSM-102 program in Turkey, interest has been increasing in the Supplier Credit Guarantee Program (SCGP).

In Turkey, GSM-102 is king, financing 85 percent of eligible food and agricultural imports from the United States in a typical year, with usage averaging $350 million per year over the past four years. The importance of the GSM-102 program in supporting U.S. agricultural exports cannot be overstated–especially in Turkey's current economic crisis.

This crisis has also generated interest in the SCGP. Many small companies have used the program, and discussions with these companies and prospective future users have shed some light on the program's benefits.

Since the economic crisis began in the spring of 2001, it has become very difficult for some smaller companies to open letters of credit with local banks. Those that are able to open letters of credit face relatively high transaction costs and shortened repayment terms. The cost of opening a letter of credit and obtaining the associated documentation can be as high as 3 to 4 percent of the transaction. For smaller companies and relatively small transactions, this is too expensive.

To avoid these costs, many companies have historically traded on a cash basis. But cash trading—in addition to the greater risk it poses for suppliers—has also been made more difficult in the current economic environment, since importers' customers are also asking for delayed payment terms.

The SCGP is perfectly suited for these conditions, because it:

- reduces the risk born by U.S. suppliers who would otherwise sell on an open account;
- reduces transaction costs for importers; and
- allows importers a repayment term of up to 180 days, which allows them to extend necessary credit to their customers.

In Turkey, the SCGP has been used by small- and medium-sized companies for all sorts of products ranging from dried beans to lambskins. As yet, the volume of total program use remains low due to economic conditions. However, the FAS office staff in the U.S. Embassy in Ankara are optimistic that interest in, and use of, the program will grow as more importers learn about it during regular company visits, conferences, seminars and trade shows. ■

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SCGP Swells U.S. Sales In Mexico

By Kathryn DeRemer

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Exporters to Mexico have made the greatest use of the Supplier Credit Guarantee Program (SCGP). Each year, since 1998, SCGP exports to Mexico have increased by about 100 percent.

During its early implementation (from 1997 to 1998), the SCGP grew even more rapidly, from $450,000 worth of coverage to over $15 million. In fiscal 2001, USDA extended $133.95 million worth of coverage under the SCGP in Mexico.

While the SCGP has been growing rapidly, the GSM-102 program remained three times the size of SCGP in terms of the coverage extended in Mexico in fiscal 2001. But as noted, SCGP use has been growing rapidly since 1998, while GSM-102 use has been declining about 15 percent per year on average. If the shifts in program use continue at these rates, the use of SCGP could exceed the use of GSM-102 in Mexico by fiscal 2003. However, the recent extension of GSM-102 to three-year credit terms for Mexico could bolster use of that program.

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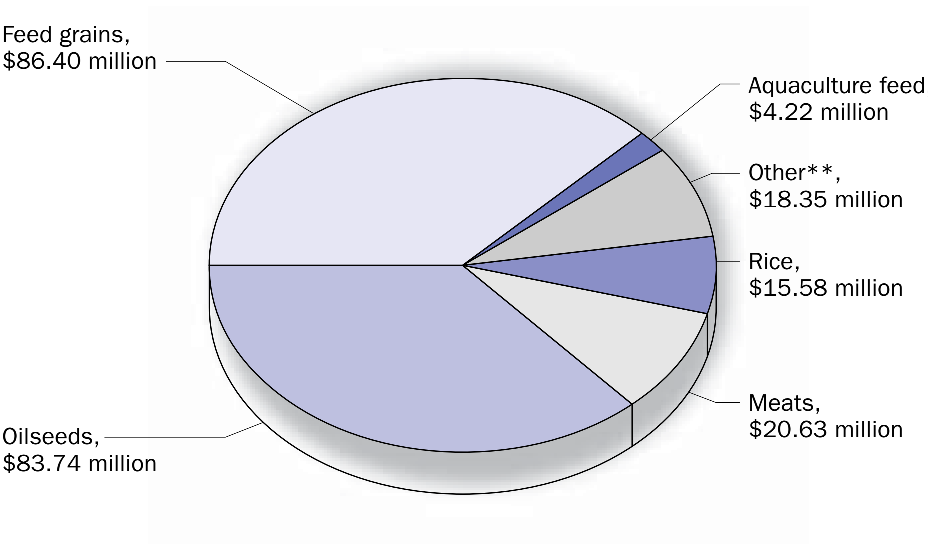
Suppliers use the program to manage credit risk with both new and repeat buyers. The program provides a way to mitigate the risk of selling to an unknown importer, though some companies use the program with every direct sale to Mexican importers. The SCGP is a tool that many companies use regularly to manage their credit portfolios, and it has become part of their standard operating procedures.

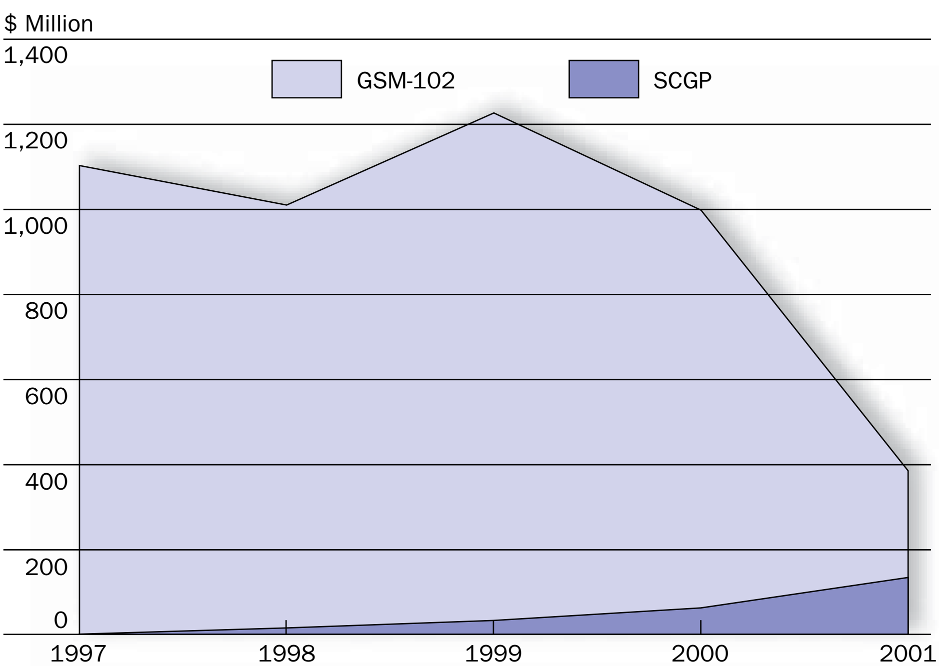
A wide variety of commodities are sold using the SCGP. Based on dollar coverage for 1999-2001, 75 percent of the program in Mexico supported sales of feed grains such as corn (white and yellow) and sorghum, and oilseed products such as soybeans and soybean meal. Other commodities sold under the SCGP in that period were meats, which accounted for 9 percent of SCGP coverage; rice (rough and

During 1999-2001, SCGP Funding Supported Sales* of Numerous U.S. Commodities in Mexico



*Registrations—i.e., USDA guarantees of 65% of sales values.
**Includes animal fat, breakfast cereals, cotton, fruits (canned and fresh), livestock, pet food, potatoes, protein meals, dried beans, soft drinks, wheat, wines and wood.

In the Past Five Years, GSM-102 Use in Mexico Has Declined, While SCGP Use Has Climbed



milled), 8 percent; and aquaculture feed, 2 percent. Meat products sold using the program included fresh and frozen beef and pork and beef offals.

Vista Trading, an exporter that has used the program in Mexico since fiscal 2000, explained that the balance between the amount of coverage the company received and its exposure risk was important. Vista Trading has used the program for exports of sorghum and corn. "The USDA-guaranteed value of 65 percent is enough to encourage the exporter to participate in the program," said Wayne See, Vista's export sales manager. "The 35-percent credit risk is enough incentive for the exporter to exercise proper diligence to make sure the importer is financially sound."

Based on interviews with other exporters that benefitted from SCGP coverage in fiscal 2001, FAS' Agricultural Trade Office (ATO) in Mexico City anticipates program use will likely increase in fiscal 2002. The exporters interviewed thought that most of their new sales directly to suppliers to Mexico will occur through the program.

ATO Mexico City does not expect the mix of product sales covered by the SCGP to change significantly in the next couple of years. However, based on projections of exporters using the program, predicted growth of the Mexican market and continued promotion of the program by ATO Mexico City and ATO Monterrey, use of the program will continue to grow. ■

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In South Korea, SCGP Supports Sales of Many Products

The financial crisis that began in Asia in 1997 created a renewed demand for GSM-102 credit guarantees in South Korea, as well as interest in other credit programs administered by FAS. The Supplier Credit Guarantee Program (SCGP) first became available for this market in fiscal 1999–and has proven a versatile tool for U.S. exporters and Korean importers alike.

The program has supported sales of a wide range of U.S. products in this market, including fruits (canned and fresh), seafood, wines and wood. In fiscal 2001, SCGP registrations (i.e., USDA guarantees of 65 percent of sales values) for South Korea totaled $2.52 million. So far in fiscal 2002, registrations have surged to $6.6 million.

This substantial rise in program use has occurred partly in response to seminars that the FAS Agricultural Trade Office and Office of Agricultural Affairs conducted in the fall of 2001 with specifically targeted potential importers. While importers often claimed to be familiar with the program, the seminars served to bring them up to date on program changes and increased benefits.

Importers agree that SCGP regulations have caused no inconvenience in executing sales, and are generally pleased with the ease of program operation. Importers also find the longer financing period allows them to better manage their cash flows, a critical factor in peak import seasons, such as before the Lunar New Year.

Terms of financing individual sales under the program have varied widely, depending on the U.S. supplier. Probably the most attractive terms were those of a transaction of 90 days of credit with no interest. In another case, the supplier was willing to extend the tenor of credit from only seven days without the program to 45 days with SCGP coverage. Finally, one importer described a case where he received 60-day financing with SCGP coverage, but in return he had to pay interest of 8 percent.

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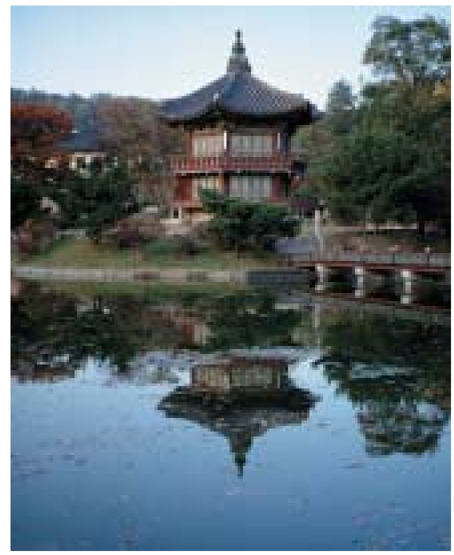

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The 65-percent coverage helps U.S. exporters manage their business risk, while allowing them to provide greater payment flexibility to their customers.

Users have generally reported great satisfaction with the program so far. And the SCGP could open additional opportunities for U.S. suppliers in this market. As more and more U.S. exporters learn of these prospects, use of the SCGP in Korea will expand. ■

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Olympic Opportunities in Europe Through SCGP

By Fred Giles

In 2004, Greece will welcome the world to the Summer Olympic games. And Europe offers Olympic opportunities to U.S. exports as well, thanks in part to the recent expansion of the Supplier Credit Guarantee Program (SCGP) for Western Europe.

For fiscal 2002, $50 million has been earmarked for credit guarantees to this region, comprised of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and the United Kingdom (U.K.).

To ensure awareness and success of the program, FAS staff conducted outreach activities in the U.K., Sweden, France and Greece. In each location, the team found great enthusiasm for the prospect of assistance in obtaining U.S. agricultural products.

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In London, importers expressed an interest in purchasing citrus products and other grocery items.

In Stockholm, American microbrewery beer seems to be the rage. One beer importer placed his12-month purchase plan before the team to get pointers on taking advantage of the SCGP. Importers in Sweden complained that strict credit terms with U.S. suppliers limit their purchasing power and therefore constrain their ability to meet demand for U.S. products.

In Paris, importers are interested in purchasing U.S. grocery items such as nuts, dried peas and beans under the program.

And as Athens gears up to full-throttle preparing for the Olympics, and its number of tourists swells from 12.5 million in 2001 to 25 million in the year of the Games, demand will soar for such U.S. products as nuts, dried beans, cereals and frozen foods such as seafood, potato fries, dough and vegetables.

All in all, the SCGP is proving to be very popular in Europe, and FAS staff anticipate that use will grow for the foreseeable future. ■

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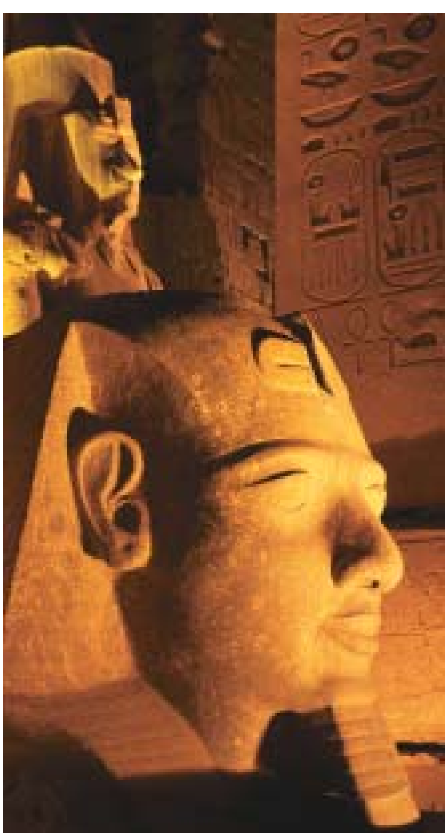
SCGP Uses in Egypt

By Ali Abdi

The Supplier Credit Guarantee Program (SCGP) has been very useful in Egypt for some commodities, particularly where there is a close relationship of confidence between buyer and seller.

Egypt is a huge market for U.S. agricultural products. In a typical year, Egyptian companies import about $1 billion worth of U.S. agricultural commodities, as they did in fiscal 2001.

Major U.S. agricultural exports to Egypt consist of bulk commodities such as wheat, corn, soybean and meal, dairy products, vegetable oils and consumer-ready products such as processed fruits and vegetables. USDA credit programs, particularly the SCGP, have been very valuable for Egyptian importers and U.S. exporters. Traditional credit programs, requiring letters of credit, have not been effective in the last couple of years.



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Although the fiscal 2001 GSM-102 allocation for exports to Egypt was $100 million, that program has gone virtually unused. In an attempt to slow down imports, the government of Egypt prohibited banks from opening letters of credit unless importers deposit 100 percent of the value in advance. This policy virtually eliminated the use of the GSM-102 program in Egypt.

When this law went into effect, importers changed the way they do business with local banks. Most importers began using cash against documents, which lets them make payment through banks when the goods arrive, rather than asking banks to open letters of credit.

Although limited, SCGP funding for Egypt has been a valuable tool for U.S. exporters and Egyptian importers. The 2001 allocation for Egypt was nearly exhausted by the end of the year. Egyptian importers find the SCGP attractive because it has a 180-day credit period, and because they avoid high letter-of-credit costs.

Exports of fresh apples and beef liver have benefitted from this program. In the absence of credit facilities, Egyptian importers have difficulty importing U.S. agricultural products, particularly when there is a severe foreign exchange shortage in the market. Without the SCGP, import traders would not have the flexibility they need to raise money from end users.

Importers currently using the SCGP have expressed strong interest in extending the guarantee period from six months to one year. U.S. exporters would like to see the guarantee level increased.

Importers are struggling to cope with Egypt's difficult economic conditions. The Egyptian pound lost 25 percent of its value against the U.S. dollar in recent months, and most business groups anticipate further weakening of Egypt's currency. There is a severe shortage of hard currency in the market.

Moreover, economic and security concerns over the past several months have resulted in a $2.5 billion loss to Egypt's tourism sector and have reduced shipping revenues from the Suez Canal. Private sector importers have been hit particularly hard by the gap between the official exchange rate and the parallel market rate. For example, while government entities are able to import wheat at the official exchange rate of 4.65 pounds per U.S. dollar, private sector importers have been forced to find dollars in the parallel market, where exchange rates can go as high as 5.70 pounds to the dollar. And even at the higher rate, importers say they often must source funds from various exchange dealers, or face long delays at the bank.

Consequently, the SCGP is likely to be of interest to U.S. exporters to Egypt, particularly in cases where they know their customers fairly well. The SCGP has helped exporters and importers in the Egyptian market circumvent some economic and financing constraints. ■

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West Africa SCGP Success Stories

By Bruce Zanin

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In Côte d'Ivoire since the late 1980s, U.S. brown rice has been the core of food aid shipments under P.L. 480 Title I and Food for Progress. But it was not until August 2000 that the first commercial sale of 6,000 metric tons of U.S. brown rice was made, using the Supplier Credit Guarantee Program (SCGP).

Through September 2001, **Uniriz,** the largest Ivorian miller, had made four purchases, worth approximately $6 million, all using short-term financing facilitated by the SCGP. The brown rice is milled and sold under the Oncle Jo brand, which is steadily gaining a larger share of Côte d'Ivoire's market for high-quality rice.

The Rice Company of Roseville, Calif. has made sales of brown rice and corn in this market though the SCGP. In the spring of 2002, the company shipped 6,000 metric tons of rice and 3,000 tons of corn. The Rice Company and Uniriz were brought together through an FAS trade mission in February 2000, in which the USA Rice Federation, a cooperator in USDA's Foreign Market Development Program, participated.

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In Mauritania

Staff from the U.S. Department of Commerce's Foreign Commercial Service (FCS), the FAS Office of Agricultural Affairs in Abidjan, Côte d'Ivoire, the U.S. Embassy in Nouackschott, Mauritania, and a U.S. exporter combined efforts to use the SCGP in Mauritania.

Lighthouse American International, Inc., the U.S. exporter, has registered its first sale under the SCGP for $2.3 million in wheat and expects to conclude another sale of $2.3 million worth of vegetable oil soon.

The effort began in June 2000, when the U.S. Embassy in Nouackschott sent in a private trade opportunity cable for a Mauritanian importer of a number of food products. Lighthouse American International began negotiations with the Mauritanian company. The deal hinged on the extension of short-term credit to the importer.

Initially, Mauritania was not included in the SCGP allocations for the West Africa region. However, at the request of Lighthouse American, the country was added in August 2001. ■

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TRADE SHOW OPPORTUNITY

EXPO USA 2002

DOMINICAN REPUBLIC

The Show: **Expo USA 2002** is a unique opportunity to promote U.S. products and services in the Dominican Republic. The Great American Food Pavilion features U.S. food products.

At **Expo USA 2001**, over 3,000 people visited the Great American Food Pavilion, including 1,000 trade visitors (importers, distributors, retailers, etc.). Of the 80 U. S. products test-marketed at the show, 25 were introduced into the Dominican Republic.

Expo USA 2002 is a joint activity organized and promoted by the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA), the Foreign Commercial Service of the U.S. Department of Commerce and the American Chamber of Commerce of the Dominican Republic.

Location: Santo Domingo, Dominican Republic

Dates: **Sept. 12-14, 2002** (Thursday-Saturday)

Deadline: **July 20, 2002**

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Trade Notes...

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Australia Approves California Grape Imports

In February, the Australian Ministry of Agriculture approved imports of California table grapes under strict conditions that include fumigation at origin. To promote California table grapes in the newly opened market, FAS will provide $75,000 to the California Table Grape Commission under its Quick Response Emergency Fund program, created under Section 108, which finances the sale and exportation of agricultural commodities to foreign governments on concessional terms. The money will fund promotions, consumer evaluations, technical assistance and trade servicing to the California table grape industry. The United States and Australia have countercyclical growing seasons, so the trade will benefit both countries. USDA and the Office of the U.S. Trade Representative have worked for more than 10 years to obtain access to the Australian market for California table grapes. This year, USDA's Animal and Plant Health Inspection Service and the Australian Quarantine Authority ironed out the final details of a shipping protocol. USDA will continue to work with the grape industry and the Australians to reassess the program at the end of the first shipping season to review the need for some of the requirements. For more information about the Quick Response Emergency Fund go to: www.fas.usda.gov/mos/108/Program%20Notices/10801001.html

USDA To Promote Paris Health Food Show

FAS will host a U.S. Pavilion Sept. 17-19, 2002, at the Health Ingredients Europe (HI Europe) 2002 exhibition in Paris, France. This is Europe's only exhibition and conference dedicated solely to the health food ingredients industry. Across Europe, functional food demand is expected to grow 30 percent over the next two years. That makes it the fastest-growing food segment in the region. In France alone, the market for organic food expands 20 percent annually: sales in 2000 reached $1 billion and are expected to reach $2.4 billion by 2003. While the health food market is specialized, it is by no means limited. Makers of spices, vitamins, plant extracts, diet foods, food supplements and natural aroma products have a place in this trade show. Many European health product manufacturers are expected to attend, looking for ingredient suppliers. For more information on exhibiting products at HI Europe, or for information on other USDA-endorsed shows, contact: Sharon Cook, FAS' Trade Show Office. Tel.: (202) 720-3425; Fax: (202) 690-4374; E-mail: Sharon.Cook@fas.usda.gov

The Fourth Time Is the Charm

The fourth year of participation at the Canadian Food and Beverage Show in Toronto proved to be the most successful so far for the USA Marketplace Pavilion. A new location on the exhibit floor with better traffic flow and record attendance helped to make the Pavilion a resounding success. Projected 12-month sales from the show are expected to reach $1.9 million.

Guide to Exporting Fishery Products

FAS has published a new guide to assist fishery product exporters with everything from document preparation to finding industry contacts. The guide features a special section on financing options and information to help U.S. agribusinesses gain market share worldwide. U.S. exports of seafood products rose 10 percent in fiscal 2001 alone, and were valued at $3.1 billion. The free guide is on FAS' homepage: www.fas.usda.gov/ffpd/Export-Guidebook/FisheryGuide.pdf

Hard copies are available by calling FAS' Forest and Fishery Products Division at (202) 205-7763. Mail requests to USDA, FAS/FFPD, AgSTOP 1047, 1400 Independence Ave., SW, Washington, DC 20250-1047.

Also in This Issue:

- Trade show opportunities in Poland and the Dominican Republic

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- U.S. ingredients scoring in Hungary's food processing industry
- U.S. poultry and seafood making the grade in the Balkans
- The Czech Republic's attractive market for U.S. foods
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