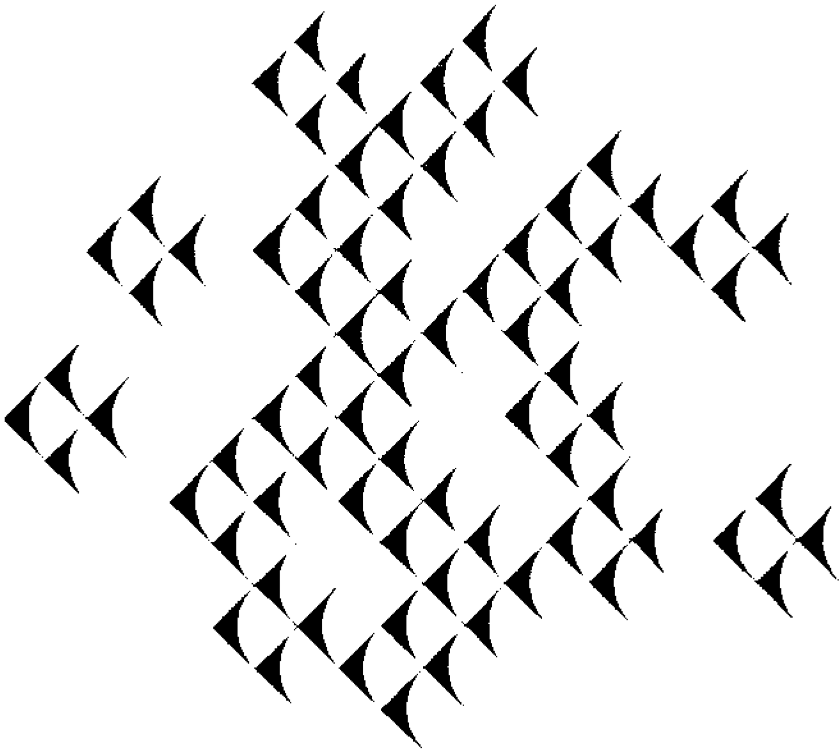

Seafood Exporting

Proceedings of a Workshop
January 30-31, 1985
Seattle, Washington

Joe Yuska and Sandy Ridlington, Editors

Oregon Sea Grant
ORESU-W-85-001

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U.S. Department of Education
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Contents

Preface

This proceedings contains selected papers from the Seafood Exporting Conference held January 30-31, 1985 in Seattle, Washington.

The objectives of this workshop were

1) to underline the importance of exporting to the health of the United States' seafood industry,

2) to analyze where we stand in our negotiations and agreements with our trading partners, and

3) to investigate ways of taking advantage of sales opportunities for our seafood products in foreign countries.

Sponsors of the Seafood Exporting Conference were the National Marine Fisheries Service (NOAA), the U.S. and Foreign Commercial Service (International Trade Administration), the West Coast Fisheries Development Foundation, and the Department of Agricultural and Resource Economics, Oregon State University.

Presentations

CURRENT STATUS OF SEAFOOD EXPORT MARKETS: TRENDS, PROBLEMS, AND OPPORTUNITIES

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National Marine Fisheries Service
Seattle, Washington

In this presentation, I will give you a very general picture of recent developments in our fisheries export trade. I will attempt to put this into the perspective of a business cycle of a dozen years, a cycle with an extraordinary event, to which the markets are still adjusting. I will then describe some of the problems the American exporter faces in 1985 and some of the places where there may be opportunities.

Let's start with a brief review of the last decade's activity in U.S. fishery product exports. U.S. exports increased dramatically after 1976. Before the extension of our national fishery jurisdiction, the annual value of our exports ranged from about \$100 to \$300 million. In 1977, the 200-mile limit came into effect, giving American fishermen priority access to the fisheries of what is now called the Exclusive Economic Zone. What the foreign buyer once could harvest directly, he now had to buy from a U.S. operator if the U.S. fishing capacity existed.

At the same time, many other nations extended their fishery management jurisdictions to 200 miles, displacing the distant water fleets of various consuming or marketing countries. The resulting shifts in the terms of resource access produced changes in the volume and patterns of international trade in fishery products. According to the FAO, world exports of fishery products increased from \$4 billion to over \$15 billion between the years 1972 and 1982. Over the same years, total world landings also increased, but only from 62 million metric tons to 77 million metric tons. So we see that although fish landings have increased by 24 percent over this past decade, international trade in these products has increased by more than 10 times that amount (270 percent).

Now, back to the United States. The initial export boom of the 200-mile zone appears to have passed, with our export values passing \$1 billion in 1979 and peaking in 1981. Each year since, export values have fallen steadily.

This is a drop of almost 20 percent since the 1981 peak. Exports of nonedible fishery products (fish meal, shells, etc.) have fluctuated within their usual range. Seafood exports, on the other hand, have declined by almost a quarter of a billion dollars since 1981.

If we look at these same trends in terms of constant dollars, the drop is even more pronounced. The trend in U.S. exports in the past few years has been toward lower valued products. Right now I cannot tell whether this reflects a shift toward less-processed, lower-value-added products, or the development of exports of the so-called underutilized species. We will be looking in more detail at these statistics over the next year, after final 1984 figures are available. I suspect it is a bit of both.

What species and products account for the recent drop? Edible exports dropped 15 percent from 1981 to 1983, or $165 million dollars. Crab products account for $64 million of this, and salmon for another $71 million. There were increases in exports of some products, such as herring, shrimp, and sablefish, that partially offset these losses. Some of these species, such as king crab, are simply unavailable for biological reasons. Export recovery in these items will have to wait for better resource conditions, but in the meantime exporters may want to consider substitute products aimed at the same market niches. For example, other crab products and surimi analogues may find greater acceptance while the king crab shortage keeps prices up and demand unsatisfied. In other products, such as fresh and frozen salmon, new foreign sources of competition, such as Norwegian aquaculture, are beginning to alter the market situation in ways we are unaccustomed to.

In addition to resource vagaries and new sources of foreign competition, what are the problems for U.S. exporters? The most obvious one is the strength of the United States dollar overseas. The currencies of some of our major seafood market countries have not fared well against the dollar. Our economy, like Pogo, has met the enemy--and it is us.

The only good thing I can tell an exporter about the strong dollar is this: it can't possibly last forever. If you're able to anticipate where the turnaround will begin first and are positioned to move into those countries' seafood markets, you might someday look back over this period of dollar strength as a necessary evil. It's unpleasant, but it builds character.

Other problems for any exporter are interpreting and meeting the special needs of overseas markets. Foreign government rules may require particular labeling, restrict the use of certain additives, and otherwise necessitate product changes before exporting. But a more difficult and subtle source of problems is the foreign market itself. Different cultural preferences for the way a product looks or tastes are probably the easiest to identify and adapt to, if you are willing to make the changes necessary. But there are subtle problems that you only discover after you've sent your product over. Different distribution systems may require different packaging, such as smaller units to fit on the narrower handcarts used in more constricted Japanese warehouse aisles. Cultural anomalies, such as the Japanese superstition about the character "4" or the western taboo on "13," can oblige you to pack in different quantities for different markets. And, of course, the term "quality" has some very subjective elements that may make squid frozen in bulk completely unacceptable in Spain, despite its apparent high quality in U.S. eyes.

The last set of problems I'll note are the government ones. Trade barriers have received a lot of attention in the past few years. This was a natural outcome of the increase in our seafood exporting activity, as American businessmen began to do more business overseas. I think there's also been an increase in the level of foreign protectionism, as foreign governments respond to their own fishermen's requests for help in maintaining exclusive domestic markets. Twenty, and maybe even ten years ago, many governments would have responded by raising tariffs on imports. This is a "can't lose" situation for the foreign government. Either the 50, 80, or 100 percent import tariff keeps out foreign products and the country's own fleet and processors are protected, or it doesn't--and the country has money in the national treasury to show for it.

Just after World War II, when the American economy was strong and growing, our need for export markets led us into a national policy of free trade. The most visible and quantifiable trade barrier was the tariff. We negotiated the General Agreement on Tariffs and Trade (or GATT) in 1947, an umbrella treaty setting forth an agreed basis on which the free world would conduct its international trade. A key element of the GATT was the commitment not to raise tariffs above their present levels except under certain exceptions. Every so often, the GATT member countries meet in a multilateral trade negotiation (MTN) and agree on further tariff reductions. This has lead to a situation where, in many cases, tariffs are not serious obstacles to trade. They do still have major effects on relative competitive advantage, but they do not function as absolute barriers with the frequency they used to.

On the other hand, governments have devised new, and subtler, ways to restrict imports. What the tariff hand appears to have given up, the import quota hand has taken back. Many countries use quotas and other import licensing systems to exclude export competition more effectively than tariffs ever did. The GATT parties in 1979 developed an international code on import licensing procedures designed to limit the use of such tactics, but it does not have enough signatories yet to have a really definitive impact.

Let me give you a few examples of the types of import quotas, license systems, and other restrictions U.S. seafood exports face. Several countries issue import licenses in a highly discretionary way. All exporters to these countries may apply for licenses, but only those from certain countries are awarded. The decision may be based on foreign policy, fishery access issues, or other matters not related to the marketability of your product.

There are also import controls that combine tariffs and quotas. The European Economic Community has a reference price system. If your export is priced below a certain reference price, it may be subject to a variable levy--which in effect makes its price less competitive with that of the domestic EEC product--or excludes the product entirely.

At least two countries I know of set import quotas on certain fish products based on projections of domestic supply and demand. If the government doesn't think its own fishermen and processors can produce all the salt cod, surimi, herring, or whatever that their consumers want, it will allow in just enough imports to bridge the gap. These systems usually are designed to keep up prices, both for domestic and imported products, so there are some positive effects for U.S. exporters, but I can't say whether this limited price benefit is worth the cost of being relegated to the position of a marginal supplier.

In terms of opportunities, it is United States government policy to encourage free trade, both here and abroad. Where you encounter a government-controlled trade barrier, let us know. Although the "fish and chips" leverage is diminishing as foreign fishing is cut back, this leverage can still be used. And there are the other avenues, such as the Trade Representative's offices, through which your government is attempting to improve the conditions of export trade.

As for specific market opportunities, NMFS has contracted for market surveys in the past, but has no current reports of this type. We have a lot of basic data, which we are happy to make available for any prospective exporter to analyze, but we do not routinely conduct market opportunity analyses. I would suggest you look at items where our export performance has fallen off recently to see whether we might re-enter those markets once the resource conditions or exchange rates turn around.

For several years now you've heard NMFS talk about export opportunities in species that are available in our 200-mile zone, but that are not caught or processed by U.S. companies. We're seeing some results here, and I'll offer them as examples. Sablefish exports to Japan reached 11.5 million dollars in 1984, up from less than 1 million in 1981. U.S. landings of Pacific cod are increasing sharply, and although much of this is entering the U.S. frozen market, some is being exported in salted forms. Squid exports, mostly to Europe, had increased, until the product caught around the Falklands by Polish vessels glutted the market.

Another possible opportunity out there is joint ventures. So far these operations have benefitted mainly fishermen, but the time may be ripe for the U.S. partners to ask for different types of benefits, such as technology sharing and market assistance.

As for the special market needs, such as the cultural anomalies and packaging preferences I have just mentioned as a problem, I would encourage you to approach these as an opportunity. Come up with the quality, market-tailored products needed, and you can convert these problems into your own special opportunities. Dried squid for Taiwan is a good example of this.

Finally, I should note that your government offers various kinds of help to exporters. This conference is itself an example of the type of information opportunity the Foreign Commercial Service makes available. Other opportunities are extended through NMFS Regional Offices, the Fishery Development Foundations, and the Commodity Credit Corporation.

In summary, the trends may not look encouraging, but if you believe in the business cycle, you'll see this as the necessary prelude to a recovery in our exports. Whatever goes up, probably came down before it went up. The problems are various, but nothing much different from problems American business has overcome in the past. And the opportunities are what you make of them.

FISH AND CHIPS: THE NMFS PERSPECTIVE

William G. Gordon
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I'll make some general observations about the current state of play in the "fish and chips" game, point out some of the limitations we're running into, and suggest some changes we are considering.

First, let's be clear about what the fish and chips policy is. The U.S. government, in response to industry's requests and the Congressional directive in the 1980 American Fisheries Promotion Act, has told foreign countries fishing in our 200-mile EEZ that we want fair access to their markets so U.S. fishermen and processors can catch and export more fish. As such, fish and chips is only one of several tools NMFS has used in its efforts to promote progress toward the agency's basic objective: full domestic use of the fish resources in our EEZ. It is a means to an end in the agency's fundamental fisheries policy. Therefore, we have to review its progress from time to time, and change it where necessary to effectively serve our more basic objective.

The fish and chips policy has come a long way and accomplished a great deal since it was adopted in 1979. We have concluded fish and chips agreements with a number of Governing International Fisheries Agreement (GIFA) countries, including Japan, Spain, and Portugal, and have included the amended trade-related allocations criteria in the new GIFA's we have renegotiated with these and several other nations. Consultations with GIFA countries have resulted in the relaxation of a number of tariff and nontariff barriers. For example, Japan has lowered tariffs on squid, crab, salmon roe, herring and herring roes, and salted salmon and increased the amounts of herring that may be imported. Korea has allowed automatic import approval for many species we requested, and at our request the EEC excluded salmon from a new restrictive reference price system that applies to many other products.

Our use of the allocations as leverage on foreign countries has played an important part in the growth of the so-called joint ventures, at-sea sales of domestically harvested, underutilized species to foreign processor vessels. It was only after the temporary withholding of their allocations in early 1982 that the Japanese agreed to a dramatic increase in these "over-the-side" arrangements. Joint venture deliveries may approach 1 million metric tons in 1985. Thus, we have rapidly reached the point where joint venture volumes will equal and surpass the total allowable foreign fishing allocation (TALFF), a development which only a few years ago appeared barely likely.

While these successes are notable, we have to be aware of the problems and shortcomings inherent in the fish and chips policy. We are beginning to reach a point of diminishing returns, and I believe that it is our responsibility to begin planning now for the next phase of our allocations and industry development policies.

Let me describe the limitations built into the policy--which we have recently become acutely aware of in our fisheries trade negotiations with the GIFA nations and in our trade performance generally. First, and this was an inevitable development, the amount of leverage is diminishing. East Coast TALFF never was very large and has been reduced to the point where it is not a major negotiating lever. As domestic harvests increase and the Councils become more creative in their definitions of optimum yield, TALFF on the West Coast has also begun to shrink. At the same time, more countries want to fish in the Pacific--Portugal, Norway, Spain, Iceland, perhaps eventually China--and the USSR and Poland have been allowed to resume directed fishing here. As a result, what little TALFF there is will be spread so thinly that it does not provide the same negotiating leverage it once did.

To be frank, our own fishery management processes and regulations are not designed to make the allocations leverage an effective incentive for foreigners. Regulatory restrictions on fishing areas, seasons, and gear types; increasing fees and observer charges; and unpredictability of changes in the rules all make the "carrot" of allocations a rather worm-eaten one, at least from the foreign viewpoint. From our viewpoint, this may not be such a bad thing. After all, the goal is to displace foreign fishing, and the fish and chips policy is simply an attempt to make the best of a second-choice situation.

In the past two years, foreign governments have proven increasingly resistant to our demands for relaxation of their tariff and nontariff trade barriers. As their opportunities for fishing in our zone decrease, they are understandably making every effort to reserve their domestic markets for their own fleets. I think we obtained all the "easy" concessions in the first few years, and now, as we come up against the really hard issues--for example, Japan's pollock products import quota--our remaining leverage is not adequate to the task. And because many of the GIFA countries are not really good long-term prospects for U.S. exports (for example, Korea and China, with their low per capita incomes, and Iceland with its tiny population), they are not good candidates for the fish and chips policy.

A related problem is "chips and fish." Last year both Spain and Portugal told us that their policy is to restrict market access for those countries that exclude them from their 200-mile zones. The import licensing systems in these countries are highly discretionary and could easily be torqued to exclude U.S. products. While we would protest this through trade channels, there isn't really much hope of opening a market just through legal or treaty leverage. So it may be better to begin now, in some cases, to phase out the linkage between allocations and trade before we lock ourselves into a situation where foreign fishing would be perpetuated. We are seeing the reversal of this linkage, with obvious implications for our efforts to increase exports.

When we look at the bottom line, we find that U.S. fisheries trade performance with most of the GIFA countries has been disappointing, to say the least. As a matter of fact, U.S. fish exports (which do not count joint venture transfers) have remained in a range of about $1 billion annually since 1979. The biggest accomplishment in this area is the expansion of over-the-side sales in joint ventures. But even this is a mixed blessing. There is a growing feeling that the rapid development of joint ventures poses certain long-term problems for the domestic fishing industry. Our harvesting sector is growing much more rapidly than our processing industry, possibly resulting in unbalanced fisheries development. The level of economic benefits accruing to the U.S. from joint ventures is low, in view of the fact that the same fish could be processed by domestic operators (either shoreside or on U.S. vessels) with the added value accrued to the U.S. Although a few of the joint venture applications in 1984 did not ask for directed foreign fishing, most of these joint ventures have presumed continued allocations. In this way, some foreign nations are establishing relations that will make it more difficult to phase in U.S. processing capability. So in both joint ventures and in market access, we see the fish and chips policy passing the point where it helps reduce foreign fishing, to a new era where this linkage may lead to perpetuation of foreign fishing in our zone.

I think we have to recognize that by its very nature, the fish and chips policy was a transitional one and is by definition set up to self-destruct. Since a fundamental goal of the NMFS and the U.S. industry is full domestic use, we might say that the demise of the fish and chips policy is inevitable.

The complete replacement of foreign harvesting and processing by U.S. operations, even if spurred on by legislative action, will require a number of years to complete. During this transitional period there are a number of things we should do to improve the chances of getting valuable development contributions in exchange for these last few years of TALFF.

We must make it absolutely clear that our fish and chips policy is an interim device, intended to get some benefit from foreign fishing here for a few years, but not to perpetuate it. In other words, we should make it clear that these arrangements are only transitional to full U.S. use. The law was amended last year to make allocations discretionary. We should decide, with industry's help, how and when to exercise this authority.

Finally, we need a better way of identifying the trade problems we should attack. We hear from some of you exporters on an individual basis, but with the exception of the coalition which Ron Jensen has chaired, we seldom hear from organized industry groups. I would invite each of you, and any trade associations in which you participate, to bring us your fishery trade problems so we can apply the remaining fish and chips leverage to good end. We will be talking over the next few months with industry leaders about improving our ability to identify your trade problems and would welcome your suggestions.

Along this line, I should point out that many of the obstacles we're now encountering in our export efforts can only be resolved by individual U.S. companies dealing with their counterparts overseas. For this reason, we see the use of industry-to-industry negotiations as an appropriate parallel to our government-to-government talks. The

National Marine Fisheries Service helped get these talks going in Seattle in June of 1982 and has supported the industry's results by pressing the foreign governments concerned to remove any trade barriers that could affect the successful carrying out of their industry's commitments.

ORGANIZATIONAL DECISIONS AND RESPONSIBILITIES: COMMITMENT OF MANAGEMENT TIME AND COMPANY RESOURCES

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Getting your start in exporting is like entering any other new business venture. You must gather the facts in order to make the best possible decision. Whether or not your company is ready to export depends both on these facts and your accurate understanding of their meaning. Your ultimate success in exporting also requires an additional critical management factor.

I believe the first major step is to address this critical factor; it is management commitment in a broad sense to thoroughly examine the relevant aspects of exporting. This commitment requires time, effort, and capital and cannot be done without a certain degree of financial risk and the expense of personal time. The key is to keep the risk at an acceptable level and the cost commensurate with the longer range potential of generating an adequate rate of return on your effort.

Altogether too often we have had situations where, because of a downturn of domestic market excess capacity or some other reason, firms have decided that the answer to their dilemma is to turn to international markets. Historically, and I am referring to five to ten years ago when the strength of the dollar was not the issue that it is today, some firms would be initially successful in their overseas efforts. Admittedly, it would be awkward and a little different and difficult, but in some fashion or other they managed to do export marketing. This would be helpful in weathering some phase of a downturn or recession. When the recession or downturn was over, it was back to business as usual and to satisfying and serving the domestic customer. The repercussions to their export services were immediate. There was a time at which much of the activity of the U.S. Department of Commerce International Division centered directly around answering trade complaints, that is complaints from businesses overseas that had established sourcing agreements and business contacts with U.S. firms, come to count upon them as a source of supply, then were dropped to a point at which the U.S. firms would not even answer the correspondence and inquiries of their overseas contacts. Thus, many Americans early on developed an international reputation for being unreliable sources of supply.

I would like to think that all of this has ended and that such activities no longer take place. However, I am not convinced, for I still see signs of this happening. A commitment is vital. At least the commitment to intelligently explore international markets as a possible source of increased revenue for your firm.

A second important consideration in getting started in the export market is expectations. Things don't just happen in the international markets any more than they just happen in the domestic markets. It is what you make happen by good management practice.

It is true that many companies have been fortunate enough to find that their export business originally started almost by itself. Unsolicited export business is often called "over the transom sales." This simply means that when the morning mail is opened, a new telex is received from overseas or a request for a quotation has arrived from a potential buyer, and this request may lead to overseas orders. The orders then may lead to export profits and possibly to regular, more formidable export sales through a new foreign agent. This business has been accomplished without anyone in the parent organization conducting export market research or following an export strategy plan and with no agent representative having been appointed overseas. It simply came to your company as an over the transom export order. Initial orders such as these can often become substantial enough for management to enter the export market place in a somewhat passive manner. When such export sales or inquiries already exist, a study should be conducted to see which countries and which products are most active. With this information, management can then decide if a greater effort in the export area will pay off with yet higher margins.

Simplistic as it may sound, it is often meaningful to first study your own company's records. This study requires that you review old correspondence which may have been originally filed under miscellaneous but could prove to be a wealth of information in regard to generating renewed prospects. Even if these inquiries, requests, or quotations never became orders, a detailed review will indicate the potential which your company's products have for export. What we are talking about is the beginning of a development of a preliminary export marketing plan.

Three old axioms come to mind here. First, what you don't plan today you won't accomplish next year. Second, if it hasn't been written, it hasn't been said. And third, running dogs don't dig.

Yes, I know, many executives say they have their plan right in their head. But reducing it to writing sharpens the thought processes and points management in the proper direction. It doesn't have to be formal; it doesn't have to be in a beautiful bound volume. Scratch it on a yellow pad, but organize it. It doesn't have to be circulated throughout the company. It need never leave your desk drawer, but it will give you the focus and the direction that you need. I am reminded of the scene in Alice in Wonderland, when Alice meets the Cheshire cat and asks for directions. The Cheshire cat asks, "Where are you going?" Alice replies, "I really don't know." And the Cheshire cat says, "then take any road. You can't make a mistake."

To develop a sound export market program takes time and patience. Patience should probably be our third key word.

Generally speaking, it takes as long if not longer to develop one international market as it does to develop a market within a particular region of the U.S., and it requires the same type of service, the same type of communications, the same warranties, and the same or more product variations and modifications.

Interestingly, over the years in our domestic markets, we have heavily stressed marketing. That is, we think of ourselves as buyers of customers rather than sellers of goods. But many U.S. business executives still approach a market deal with, "Here are the products that we have; which of them would you like to buy?" I once accompanied a Japanese manufacturer of pumps on a call to a foreign buyer. When the two men finally got around to talking about pumps, the Japanese seller never did talk to the buyer about what types of pumps he had for sale. This approach was so unusual that it caught my attention. It reinforces the point that we should spend more time thinking about what our prospective customers throughout the world need rather than what we have to sell.

By way of quick review. Today, we discussed the importance of commitment, basic planning with a little research, the concept of patience, and expectations. The fifth and final subject that I would like to address is that of internal international management. In general I would say that the job of exporting is not always given to the best qualified people in a company. This is often due to a lack of career opportunities for export managers. As a result, senior management is not always well informed regarding the details of the export process nor is management always aware of the opportunities available to the agressive exporting company. A part of the management commitment includes the assignment of this responsibility to a senior level executive within your firm who has a good opportunity for moving your company to its true export potential.

Export opportunities must be properly balanced with domestic opportunities in both the short and long term, with a proper allocation of the company's total resources. No company will consider a new domestic venture without active leadership for management. In your planning process some targets should be established. What do you expect from your international effort? If you are dealing both domestically and internationally, do you want 10 percent from the international market? 20? 30? 40? Whatever it happens to be, set that target. This target, when you take the start-up cost into account, gives you some good parameters for allocating your resources.

IDENTIFYING FOREIGN MARKET OPPORTUNITIES, AND DIRECT VS. INDIRECT MARKETING

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In exporting, as in so many things, there is no substitute for experience. Experience, however, also includes knowledge gained from mistakes. Several years ago, U.S. Department of Commerce trade specialists compiled a listing of the ten most common mistakes made by new exporters. I think I have made them all during the past twelve years, as well as a number which are not on the list.

High on the list is insufficient commitment by management to the export process and a consequent reluctance on the part of management to provide the necessary financial and other resources to meet the initial difficulties and requirements which this business demands.

Also prominent on this list of mistakes are the following:

1. Chasing orders from around the world instead of establishing a basis for profitable operations and orderly growth.

2. Taking insufficient care in selecting overseas agents or distributors.

3. Being unwilling to modify products, packaging, or labelling to meet regulations or preferences of other countries.

4. Failing to consider the use of an export management company or other export intermediary.

If we are not to chase orders from all around the world, how are we to identify foreign market opportunities in an orderly manner and how are we to determine which markets should receive our time and effort? How do we narrow the world down to specifics and focus on the opportunities for each of our own companies?

Every time a firm makes a decision to enter or expand its foreign operations it is faced with this problem of deciding which market offers the greatest marketing-sales opportunity. The decision must be based on some form of information gathering and screening process. I would like briefly to describe one approach which involves a certain amount of data collection and putting the alternative choices through a sort of filtering process, which consists of four major steps.

Start with your own product, your knowledge of its uses and users, and the general knowledge of the world which we all have. Then, the first step in the information-gathering process involves a macrolevel look at the general market potential in each country or geographic area where you have a "feel" that there should be a possibility.

The nature of the product can certainly help for this purpose; for example, consider that wearing apparel must relate to climate and standard of living. Special purpose machinery--coal mining equipment, for example--will be useful only where coal mines are located. A select few governments or large contractors will be the primary targets for certain unique items such as aerospace programs. So, evaluate your product carefully in this general context.

Your first step should also include a look at some general economic statistics for these markets. For example, are there enough people with disposable income? Also, what is the political environment, the social structure, etc.? Any one factor, such as geographic inaccessibility or political instability, may be sufficient to eliminate the market from further consideration. A majority of the potential markets can be eliminated at this level or at least put in a less attractive category. Some discipline is involved here, since you may be going against some of your instincts or preferences.

The second stage or step in our filtering process involves data collection which relates the general market to the specific product or products you are selling. It includes growth trends for competitive or similar products, cultural acceptance of such products, availability of market data, market size, stage of market development, and such considerations as taxes and duties. Again, any one of these factors may be enough to drop a country from further consideration. For example, high import duties may eliminate a product from consideration in the market unless the producer or processor is willing to produce the product locally either alone or in a local joint venture.

The third screening step involves microlevel considerations. This involves collecting information about existing and potential competition, ease of market entry, reliability of information, sales projections, cost of market entry, probable product acceptance, and profit potential, and once again, heeding your own feel for the situation. Countries or markets which pass this filter have a good probability of being profitable opportunities.

The fourth step involves consideration of factors internal to your own company which might affect the implementation of any marketing or sales plan, and the markets which remain at this point should be arranged according to priority, taking such factors into account. For example, a promising market in Southeast Asia might be left aside or ranked below a country in Latin America because the company is already heavily involved or somewhat involved in Latin America and has no current markets or business in Asia.

This process was, of course, divided into steps for illustrative purposes. In practice, the different levels of information may be collected and evaluated as a more continuous effort.

Now, all this may be well and good you say, but where do I get all this information, and where do I find all the time to put it together?

In international sales, as in domestic sales, every decision maker has the alternative of conducting market research in-house or using professional marketing firms to perform such studies. Many companies maintain in-house market research departments to handle routine research and prepare forecasts, sometimes quite informally, but for special market surveys which may require additional personnel and special expertise, they may turn outside for help. When seeking market information in foreign countries, one is even more likely to benefit from the help of research agencies in the area or international agencies with regional offices. Local presence offers unique expertise in terms of a thorough knowledge of your target country, its customs, trade practices, and attitudes, as well as other important factors such as local industries, products, and contacts. It may also offer a needed language expertise and may be more cost effective.

Professional marketing research agencies are to be found in all developed and in most developing nations. They can be located in a number of rather ordinary ways such as directory listings, recommendations from trade associations or from other firms, or through banks or other service firms.

If a research agency is to be used, it is important to qualify it in terms of ability, and if a choice is available, to identify the one with the two most important characteristics, integrity and ability. You should feel assured that the agency cares about the accuracy of data and has the competence to achieve accuracy.

If you should elect to choose the "do it yourself" approach, there are a number of avenues from which good information can be obtained.

These, I am sure, are covered elsewhere in this seminar program, so let me merely mention, in passing, the U.S. Department of Commerce, as well as state and local agencies, transportation companies, ports, trade associations, banks, chambers of commerce, and other similar promotional entities.

Now, once your market or markets have been identified, there are some other important choices to make. These relate to your means of operation both in the foreign marketplace and here at home. Let's look at the first of these first.

Basically, we are talking about middlemen. Sometimes you have no choice or very little choice over the channels through which your goods must travel to reach desired foreign markets, or perhaps it's better to say the end user. At one end of the spectrum, you may be able to sell directly to the end user. More often, however, this is not the case, and in some instances, such as in trade with Eastern Bloc countries, it is never the case. Agents, distributors, representatives, importers, and other middlemen in the foreign market are usually necessary, and if carefully selected, usually advantageous.

In some cases the available alternatives may be few, and the middlemen willing to add a new product or label to their current line even fewer. To the extent that choices are available, you must again take several factors into consideration: the nature of your product, the characteristics of the consumer or user, the types of middlemen available and their operating methods, and the extent of local participation in the marketing venture.

As concerns the nature of the product, note that some products require a short channel of distribution no matter where they are sold. Perishable items are an obvious case. Such items need to move through as few middlemen as possible to assure arrival to the consumer before spoilage occurs.

Because of differing consumer characteristics, the same product may require different marketing channels in different countries. For example, in the U.S. the home is an important place of consumption for beer and soft drinks and the market channel must include retailers. In other countries, because of lack of refrigeration or simply differences in consumer habits, these products are consumed only or mostly in public places, thus, necessitating greater emphasis on wholesale distribution.

The nature and role of middlemen can often take on great significance in some markets where, for example, market entry requires the personal relationships which these individuals possess. This may be as true for the introduction of a new brand or label as for access to important industrial or government buyers.

The success rate in the selection of foreign middlemen by U.S. firms has not been very good. By one expert's estimate, only three out of every ten such relationships have come up to expectations in terms of anticipated sales. Most of these failures are apparently not a result of heavy competition in the marketplace, but rather of failures on the part of the exporting company to exercise sufficient care in their selection process.

A successful long-term relationship between exporter and foreign representative must be based on more than just mutual profits. Obviously, profits are essential to motivate an agent to maximize sales efforts. However, long-term success is also dependent on the development of a feeling of identification and loyalty; of mutual understanding of responsibilities and expectations; and of respect by each party for the business expertise and judgement of the other. Communication is an important tool that must work in both directions.

Up to this point, we have looked at how an exporter or potential exporter can identify and approach markets of opportunity. Now it is important to consider who the actual exporter of a particular product should be--the producer or processor himself, or an export intermediary. Should you use direct or indirect exporting, and what is the distinction?

The normal distinction is based on a division of the international distribution system into two groups: marketing channels in the home market and those abroad. Note that the distinction is made according to the location of the particular activity. If you are a producer who has contact with any business entity in a foreign market from importer to end user, you have a direct relationship and any sales are direct exports. If you deal through any export intermediary in the U.S., you are an indirect exporter.

The distinction is not as important as its implications. A direct exporter is the recipient of certain benefits, responsibilities, and obligations which must be considered with respect to a company's structure, finances, and manpower. The advantages are

1. A degree of control over distribution; specifically, over selling price, sales area, and protection of franchised territories.

2. Assurance that one's product will not be neglected for a competing line.

3. Opportunity for more market feed back to permit timely product modifications or adaptations if required.

4. Increased opportunity for trademark protection and for building up goodwill.

5. More aggressive development of individual foreign markets.

6. A full return on sales abroad, with no sharing of profits or commissions domestically.

With these benefits go certain responsibilities:

1. Maintaining adequate current commercial intelligence on markets.

2. Conducting detailed analysis of each selected foreign market.

3. Selecting distribution channels and representatives in each of several foreign markets.

4. Establishing goals, quotas, or targets for each market.

5. Determining export pricing.

6. Investigating the credit and qualification of buyers.

7. Advertising and other sales promotion efforts and expenses.

8. Mastering technical details pertaining to documents, U.S. and foreign trade regulations, transportation, financing techniques, and so on.

Perhaps even more important to consider are the financial obligations for the direct exporter. Chief among these are the following:

1. Risks of credit collections and of refusal to accept merchandise on arrival.

2. Carrying of accounts receivable due from foreign buyers.

3. Carrying of larger and possibly more varied inventory, and possibly maintaining or assisting with carrying inventories overseas for quick deliveries.

4. Adequate resources to support added costs pertaining to selling expenses, product modifications, transportation, and so on.

5. Potentially, larger initial outlays of funds before profits are shown.

If such an array of responsibilities and obligations sound a little formidable for you, remember that one of the 10 most common exporter mistakes mentioned earlier was that of failure to consider using the services of an export intermediary. EMC, trading company, broker, or whatever it might be called, the principle is the same. Most of these problems are transferred to someone else's shoulders, and you become an indirect exporter.

The most common reasons for joining with such an intermediary (for simplification, let us call them all EMC's) are

1. To establish or expand international sales.

2. To overcome problems in handling overseas inquiries caused by lack of staff or expertise.

3. To help defray the considerable cost of international sales.

4. To gain market intelligence.

5. To use or obtain additional financing capability.

Whatever the reason to gravitate toward an EMC, a careful evaluation of the services it can provide can be undertaken before any selection is made. Without a systematic approach to making such a choice, the potential partners may be mismatched terribly, reputations damaged, and sales opportunities lost. You need to understand the EMC's capability for providing marketing-sales functions, finance and credit management, operational guidelines, and just plain sound advice.

The marketing-sales functions to look for center around the EMC's organizational structure: is it product or geographically oriented? Does it have the ability to promote your product, not just sell it, and where? Product knowledge is critical. You need to know the extent of the EMC's success or lack of it in selling competing or complementary products. Also, where are your primary markets located? Does the EMC have capabilities there? A successful Latin America EMC may flop in Europe.

Finance and credit management are equally important. How do you get paid? The most significant financial benefit an EMC can provide is its ability to eliminate foreign receivable risk for you. Does the EMC have the financial strength to give credit terms required by foreign buyers and still pay you on time? Also, you will lose sales and fail to penetrate markets if the EMC cannot make timely and sufficiently large credit facilities available to foreign buyers. Most products have traditional international terms as do some markets. You should be aware of those which affect your product and be sure the EMC can provide them.

An EMC can be a valuable tool for you if you are trying to enter the international market for the first time, or if you do not have a large enough volume to support your own experienced in-house staff. Making the decision to use an EMC and then picking the right one for your company is not easy. Make a careful selection. You are hiring an entire organization, and if there is a weakness in marketing, finance, or operations, the EMC's ability to sell your products is diminished.

Finally, no matter what agreement you may negotiate with an EMC or what level of export sales your firm has achieved or desires, to make the right management decision you must compare your firm's ability to increase export sales at an in-house budget level equal to the cost of the EMC. It often makes sense to go with the EMC if the EMC can do it more cheaply than your firm can, but there should be periodic re-evaluations of this situation to make sure the tide has not turned.

DOCUMENTATION: INSURANCE, INSPECTION, SHIPPING, AND RELATED TOPICS

Marvin Nelson
Vice President, TMX Shipping
Seattle, Washington

What a good international freight forwarder will do for you if you so choose:

1. Help you get proper schedule "B" numbers to determine whether your product requires a license and what type of general license it requires.

2. Get competitive ocean freight rates.

3. Book cargo.

4. Coordinate with the supplier or shipping department to arrange the movement to dock.

5. Check to be sure the cargo is on the dock for the vessel.

6. Check to be sure the cargo is laden on the vessel.

7. Issue document (ex dec) to clear U.S. Customs; issue a bill of lading to the ocean carrier; have it signed and returned by the carrier; cover insurance if necessary.

8. Forward to you or prepare all balance of documents up to and including taking the documents to the bank with a draft against the letter of credit and have funds transferred to your account.

9. Last but not least, your international freight forwarder wants to be your international traffic and documentation department.

IMPROVING MARKET ACCESS TO WESTERN EUROPE

Ralph Johnson
Executive of the President
Office of the United States Trade Representative
Washington, D.C.

I will describe for you the principal trade problems that we see in our relations with Western Europe. First, let me briefly explain what the Office of the United States Trade Representative (USTR) is and what we do.

Ours is a small organization by Washington standards--it comprises about 130 people and is part of the Executive Office of the President, but one led by a Cabinet member--Bill Brock. Our responsibility is to coordinate U.S. international trade policy and to carry out international trade negotiations. In some areas, such as fisheries, negotiations are done by other agencies. An example is the National Marine Fisheries Service. We work closely with the Service--formerly with Bob Hayes, now with Dave Fitch, Jim Douglas and others--in its negotiations.

The idea is to share information and make sure that those countries with which we negotiate in our different roles cannot follow a divide and conquer strategy.

U.S.-EEC Issues

Agriculture

Proposed EEC Restrictions on Corn Gluten Feed

We negotiated for and got unrestricted access to the EEC market (that is, no tariffs, no quotas) for corn gluten feed (CGF) in the Tokyo round. U.S. exports of CGF amount to \$200 to \$600 million per year. The EEC now wishes to limit our sales-importing tariff or quota on the amounts we sell above a certain level--ca. 1983 sales. EEC reasoning is that our sales of CGF are undercutting sales of the EEC's own grains in the Community's animal feed market.

We disagree. We believe the EEC's grain surplus is a result of excessively high support prices. In addition, we've told the Community that we are not prepared to see limits placed on these sales. Trade is fair; we negotiated for this access. If the EEC imposes limits, we will retaliate by applying restrictions on comparable volumes of exports to the U.S.

The fact is that we are also concerned that limits on CGF sales would be followed by efforts to limit soybean exports, and here we would be talking--as a well-known politician once said--real money, about \$3 billion of it.

EEC Export Subsidies

For the last four years, in fact, for a good deal longer than that, we have worked to have export subsidies eliminated from world agricultural trade. Unfortunately, these subsidies have become an integral part of the EEC's agricultural policy. This is true primarily because the Community's price supports for domestic agricultural production are too high and generate surpluses that can be sold on world markets only if they are subsidized again--to buy down their price.

We've pressed for elimination of agricultural export subsidies in international negotiations because our farmers are competitive without subsidies on world markets. They do not need export subsidies. At the same time, they should not have to face unfair competition from those who do.

The EEC has been a reluctant partner in these talks and we have occasionally used our subsidies ourselves. For example, we used them to capture the Egyptian wheat flour market for a year (in its entirety) from EEC suppliers as a way of signalling that our patience is not unlimited. We will continue to push for international rules eliminating export subsidies. I am sure the congressional debate on the farm bill will put additional pressure on us and our trade partners to hammer out an agreement.

Steel

In September of last year, the President decided not to grant import relief as requested by the U.S. steel industry, believing pressure must be kept on our industry to continue modernizing and become more competitive. At the same time, he concluded the industry should not be subject to unfair competition in the U.S. market. Unfortunately, we were instructed to negotiate agreements with countries whose exports to the U.S. had surged. This process is now largely complete.

U.S.-EEC steel trade has been covered by a bilateral arrangement since 1982. For the most part, that arrangement has worked well and both sides have been satisfied. However, in one area--pipe and tube--the arrangement ran into serious problems. Although the Community had agreed to hold its shipments of these products to the U.S. market to 5.9 percent of our consumption, in June of last year, despite our repeated warnings, it reached 17.5 percent. During the following months we tried through consultations to get the European Commission to live up to what we considered its obligations under this part of the agreement. When it became apparent that the EEC could not, or would not, take effective action, we halted imports of pipe and tube from the Community completely in November. By late December we were able to put together a new arrangement, and EEC pipe and tube can now enter the U.S. again, although in quantities that are more in line with our original 1982 understanding.

In concluding my remarks on U.S. trade concerns in the EEC, I want to mention the Community's proposed enlargement. If all goes according to plan, which is somewhat doubtful, Spain and Portugal will become members of the European Economic Community on January 1, 1986. It seems likely that there will be some delay, but I think they will join at some point next year. Why is this so important for the U.S.? When these two countries become members of the EEC, the EEC will have to adjust its tariff schedule and the tariffs of Spain and Portugal to come up with a new EEC common external tariff.

We are concerned that the adjustment process, which is permitted, in principle, by international trade rules, will be used to increase EEC restrictions on some U.S. exports, for example, agricultural products, perhaps fisheries. We have been advising the Community for the past several years that we won't allow enlargement to be used as a pretext for raising protection against us.

I ask those of you who are exporting to Europe to be alert to my indications that new barriers may be put in the way of your products and to let us know immediately if you pick up any information on this score from your customers or representatives from Europe.

DOMESTIC SALES CAN BE MADE WITH LITTLE OUTSIDE HELP

Robert Pata
Trade Specialist
International Trade Administration
U.S. Department of Commerce
San Francisco, California

Export sales are a team effort.

The first player is the exporting company. You do by far the most work, take the risk, and profit or lose from the results.

Another partner is an international banker with foreign trading experience. Overseas sales are of no value if you cannot get paid.

A third player is a good foreign freight forwarder. It can do all the paperwork and take the headache out of shipment of goods from your place of business to the port or airport of destination.

A team member should be the US & FCS (United States and Foreign Commercial Service). In concert with the commercial officers around the world, we are able to bring you trade leads, credit reports on potential customers, assistance with trade disputes, and a host of services that are designed to assist you in the search for new markets and to better serve your established markets. We are also equipped to help with licensing problems. State and local international trade commissions can offer a world of assistance and encouragement.

An optional player is the Export Trading Company or Foreign Sales Corporation. Indirect sales eliminate all of the usual problems associated with foreign sales. You sell to a U.S. company and they do all the rest.

Department of Commerce-International Trade Administration programs may be broken down into three broad categories.

First is market research. This involves statistics, OBR's (Overseas Business Reports), FET's (Foreign Economic Trends), and similar data gathered from FCS (Foreign Commercial Service) posts around the world.

Second is promotion of your product overseas through trade shows, trade missions, and catalog shows. FCS officers are stationed around the world to assist you with information, customer contacts, trade complaints, and general advice on how to proceed.

Third is market information services such as the Agent Distribution Service, the Export Mailing List Service, and so on. These services help you identify, and sell to, a specific market.

Since the emphasis of this workshop is on seafood, I will focus on one of our publications and point out some of the programs I feel are of value to the seafood industry. The publication, <u>Exporter Assistance</u>

Programs and Services, can be obtained by writing to the International Trade Administration, U.S. Department of Commerce, Box 36013, San Francisco, California 94102.

EXPORTER ASSISTANCE PROGRAMS AND SERVICES

The following are excerpts from the U.S. and Foreign Commercial Service's Exporter Assistance Programs and Services.

Market Research

Foreign Economic Trends (FET). Country-specific reports that provide an in-depth review of business conditions and current prospects, FETs contain data on the gross national product, foreign trade, wage and price indexes, unemployment rates, etc. Annual subscription is $70. Order from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, telephone: (202) 783-3238. Single copies may be purchased from the U.S. Department of Commerce, Room 1617-D, Washington, DC 20230. Our reference library also has copies of these reports.

Overseas Business Report (OBR). OBRs provide basic background data for business people who are evaluating export markets or considering entering new areas. They discuss pertinent marketing factors in individual countries, present economic and commercial profiles of countries and regions, and issue semiannual outlooks for U.S. trade with countries and/or regions. Annual subscription is $26. Order from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, telephone: (202) 783-3238. Single copies may be purchased from the U.S. Department of Commerce, Room 1617-D, Washington, DC 20230. OBRs are also available for reference in our library.

Market Contact Services

Export Mailing List Service (EMLS). A computerized mailing list, the EMLS provides data about foreign firms that have traded with the U.S. We input specific information about what product(s) you are interested in selling, in what markets you wish to sell, and to what kinds of companies you want to sell. Such a tailored EMLS list provides information, such as the name and address of the firm, name and title of the chief executive, year established, relative size of the company, telephone/telex, product or service information, and type of business (e.g., manufacturer, wholesaler, distributor, etc.). The cost for this service is $25 (computer access charge) plus 25¢ per name appearing on your list.

Agent/Distributor Service (ADS). Through this service, we will help your company locate interested and qualified overseas agents or distributors for your products or services. Through our Commercial Offices abroad, we provide you with information on up to six qualified contacts which have expressed interest in your company's sales proposal. The charge for this service is currently $90 per country (or $90 for each of six regional markets in Canada). The ADS is available for most countries and usually takes approximately 60 days for processing.

Trade Opportunities Program (TOP). This subscription service is available in two forms:

(1) TOP Bulletin. An annual subscription listing a weekly compilation of trade opportunities for all industries received from our Commercial Offices overseas. The subscription is currently $175 per year.

(2) TOP Notice. A "customized" version of the TOP Bulletin, the Notice consists of individual leads, based on your product line and market of interest, mailed directly to you via speedmailer before they are published in the TOP Bulletin. Charges for the TOP Notice are $25 file creation fee, plus $37.50 ($62.50 total) for your first 50 leads, and the service can be renewed. If you renew before your subscription expires, you do not have to again pay the file creation fee.

World Traders Data Report (WTDR). Prepared by the U.S. and Foreign Commercial Service Offices abroad, a WTDR provides your company with information on a foreign firm with which you might be considering doing business. WTDRs contain information on a company's organization, year established, size, number of employees, general reputation, language preferred, product lines handled, principal owners, and financial and trade references. The charge is currently $75 per firm. WTDRs are not available for firms located in the U.S., Soviet bloc countries, or the United Kingdom.

Market Promotion Services

Overseas Shows. Overseas promotions organized and recruited by the U.S. Department of commerce are scheduled worldwide. Costs vary according to specific event. The type of events held include:

(1) Solo Exhibits. Trade shows which are initiated and staged by the U.S. Department of Commerce and which feature only U.S. exhibitors and their products.

(2) International Trade Fairs. Shows in which the U.S. Department of Commerce establishes a U.S. section or pavilion featuring U.S. products and exhibitors. The objective is to create a separate U.S. identity at an event that is usually multiproduct, multicountry in nature.

(3) Catalog Shows. Overseas promotions utilizing product catalogs and literature. These worldwide exhibitions feature displays of a large number of U.S. product catalogs, sales brochures, and other graphic sales aids at U.S. embassies and consulates or in conjunction with trade shows. These shows offer an excellent and inexpensive way for U.S. firms to test product interest in foreign markets, develop sales leads, and locate agents and distributors.

New Product Information Service (NPIS). The NPIS provides worldwide publicity for new U.S. products available for immediate export. NPIS information is distributed via the monthly publication Commercial News USA, which contains brief, promotional descriptions of products and information on how to contact your company. This magazine is sent to over 240 U.S. embassies and consulates, and 50 American Chambers of Commerce abroad, reaching approximately 200,000 key business and governmental leaders worldwide. The charge for this service is currently $75 per product listing.

Other Programs/Services

Foreign Commercial Service. Our commercial officers located at key U.S. embassies and consulates worldwide are ready to serve your business. Use them whenever you travel overseas for industry briefings, customer contacts, and just general advice on how to proceed. Find out where they are with a copy of Key Officers of Foreign Service Posts available for $6.50 per year or $4.25 per copy from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, telephone: (202) 783-3238.

A Basic Guide to Exporting. This guide outlines the step-by-step procedure for exporting. The current cost is $6.50, and it is available from the U.S. Government Book Store, 450 Golden Gate Avenue, San Francisco, CA 94102, telephone: (415) 556-0643.

THE ROLE OF PUBLIC PORTS

Jube Howe
Regional Manager for Alaska
Port of Seattle
Seattle, Washington

There are several services a port should provide in order for the fishing industry to increase its exports.

1. Modern and efficient storage and handling facilities.

2. Up-to-date terminals with efficient operations.

3. Computerized cargo control.

4. Moorage for the fishing fleet.

5. Modern air cargo facilities.

First, modern facilities must be developed and maintained to encourage the industry to grow and compete in the world markets. Sea Freeze Cold Storage, on the Duwamish Waterway, is an example of cooperation for development between an entrepreneur and the likes of the Port of Seattle. This facility was built to Sea Freeze specifications and then leased to Sea Freeze for operating. The two older plants, Rainier Cold Storage at Pier 25 and City Storage at Pier 91, have for years been operated on a lease basis. We believe this type of support from a port authority encourages an industry such as yours to expand for a larger share of the world market.

Second, the modernness of its terminals is something Seattle can be proud of. Some 15 to 20 years ago, a major decision was made to modernize the Seattle harbor. Terminal 18 was constructed as an exclusive container terminal, and modern container cranes were put in place for the unloading of vessels. The facility was finally put to use after sitting dormant for almost a full year. Today, with facility improvement continuing, the harbor is now handling over one million containers per year, making it the ninth largest container port in the world and the second largest in the U.S. How does this help the fishing industry? Efficient port operations encourage more ocean services, which in turn give the fishing industry access to more world markets on a very competitive basis. Availability of multiple related services encourages competitive pricing for the benefit of the industry.

The third service, computerized cargo control, has really become sophisticated in just the last few years. For example, your product entering the Seattle harbor for export would be promptly entered for identification and documentation into the computer for control from time of shipment to delivery any place in the world. Communications between the port and the ocean carrier can assure the shipper of on-time, competitive, and reliable service for his customers.

The fourth item, the moorage of the fleet, is also very essential to the growth of the fishing industry. Seattle's Fisherman's Terminal has been established for many years and is continually being upgraded to provide facilities and services needed to maintain the fishing vessel. Large facilities are also maintained in Alaska, such as those at Kodiak, Seward, and Ketchikan. Once again, with efficient and modern operations, we continue to assist the industry as a whole to be successful for the common goal of expansion, growth, and greater market share.

The fifth service is air cargo. The growing demand for fresh fish by world markets has required efficient air operations, along with proper controls on the ground. Two weeks ago, at one of the fine restaurants in Pioneer Square, I had the pleasure of eating fresh baby coho salmon from Norway. Delicious. Like many world airports, Sea-Tac has expanded tenfold in recent years to provide the necessary cargo handling facilities to move items such as fresh fish in an orderly fashion. During the season, Sea-Tac enjoys a large volume of product movement from Alaska to the major markets of the United States.

There are many more areas of effort going on daily. However, those I have discussed are among the most significant contributions a port can offer your industry.