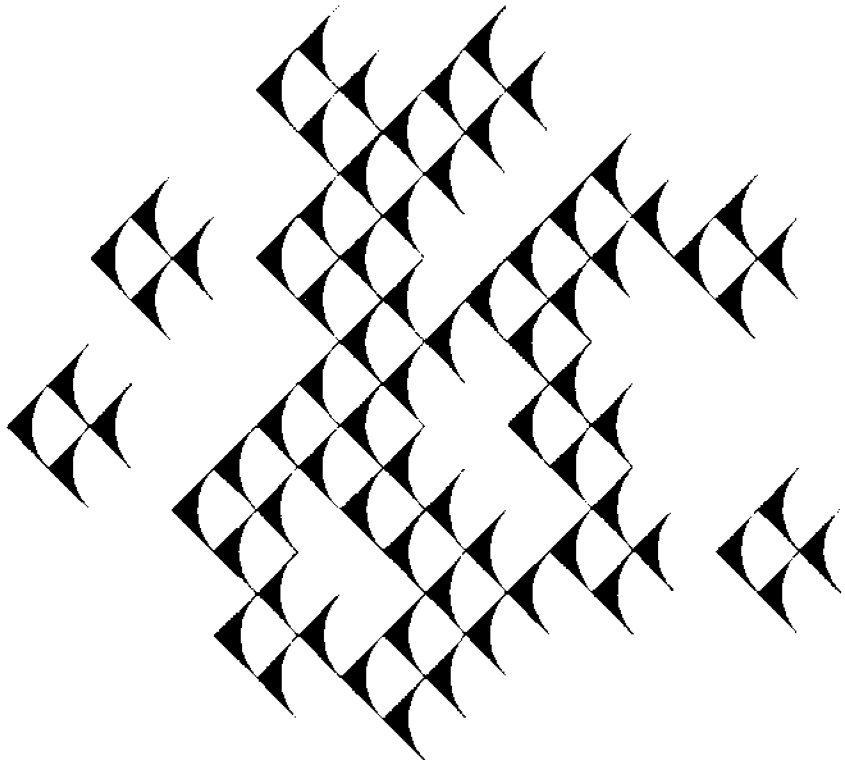

# Developments in Trade: Implications for Aquatic Products

Proceedings of a Workshop
September 25, 1985
Portland, Oregon

Joe Yuska and Sandy Ridlington, Editors

Oregon Sea Grant
ORESU-W-85-003

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Sponsored by

U.S. Department of Education
Department of Agricultural and Resource Economics,
Oregon State University
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# Contents

# Preface

Participants in this workshop discussed recent developments in exporting, including countertrade, with an emphasis on fisheries and seafood-related commodities. However, a large part of the workshop centered on general trade topics which may be of interest to people outside the fisheries/seafood sector.

Participants from the private sector, government, and universities were encouraged to view this workshop as a forum for discussing ideas, sharing experiences, and posing questions. Emphasis was on recent and innovative approaches to challenges facing exporters in the Pacific Northwest.

# Presentations

## WELCOME

### Lloyd Porter:

*Lloyd Porter is district director of the U.S. and Foreign Commercial Service, Portland, Oregon.*

Oregon State University, the International Institute of Fisheries Economics and Trade, my own organization--the U.S. and Foreign Commercial Service--and a consortium of Oregon seafood firms have worked on this series of seminars which are being funded, in part, by a grant from the U.S. Department of Education.

This conference and the participation it has elicited point out something that has been occurring, probably, too slowly in this country. That is a renewed commitment to the professionalism of international trade. As you meet your colleagues today, you are going to find a number of people who are not in the fisheries industry. A number of people have come here from various industries. I think this is good, because we all have something to share with one another.

Probably all of us agree that our most important stumbling block has been the strength of the dollar. Now there seem to be renewed signs of an effort by ourselves and our trading partners to remove the constraints on the dollar, and, as the dollar begins to fall, I hope we will be more competitive. The idea of this conference is to give us an opportunity to discuss some of the major issues involved in international trade.

## PACIFIC NORTHWEST TRADE IN A GLOBAL CONTEXT

### Mike Martin

*Mike Martin received his B.S. and M.A. degrees from Mankato State College in Minnesota and his Ph.D. from the University of Minnesota, with a major in agricultural and applied economics. His areas of specialty are marketing, prices, international trade, and policy. Currently, Mike is an associate professor in the Department of Agricultural and Resource Economics at Oregon State University. He is also the director of the university's Yemen project.*

My comments on the topic of trade in a global context really revolve around what I think are best termed twelve realities about international trade today. I want to go through those twelve realities as I see them. There are probably 112 realities, but here are the twelve that I wish to reflect upon. This will set, from my perspective, what we ought to be thinking about in some general ways as we approach the next decade and the next century in dealing in very complex but important global markets.

The first reality about the term "trade" is that it doesn't mean exports only. We have a tendency in this region of the world to say "trade" as though it is synonymous with "exports." When we say "promoting trade," we have a notion that we promote only exports. The truth of the matter is that imports are equally important, from an economic, social, and diplomatic standpoint. We simply cannot do business in a world as sellers if we are not willing to be buyers.

Imports of aquacultural products exceed exports by a factor of five to one. You are competing in a world market on the outside of this country, but you are also competing in your own domestic markets under some very complex and highly competitive circumstances. As we talk about trade, we ought not lose sight of the fact we mean imports as well. Imports can create important economic activity, just as exports can.

The second reality is that trade is increasingly important to the United States. It is increasingly important for a couple of reasons. First, for many sectors in industry, it is the export markets which hold the greatest potential for growth. This is true in agriculture, fisheries and aquacultural products, and high technology. As we look down the road, many of the domestic markets which were growth markets for us in the last 50 years have run out of massive growth. Opportunities now exist elsewhere. Second, imports enhance our lifestyle. It could easily be argued that the low domestic inflation rate we have today is largely a result of the strong U.S. dollar. Imports are intermediate products which go into manufacturing of other final goods in this country, and a strong dollar has held the price of those final products down.

We just spoke about the negative side of a strong dollar. However, virtually everything we are buying on the import side is being bought at ever lower real prices to us. Imports also enhance the breadth of products we have to purchase and thus increase our real incomes.

But imports also threaten some of our basic industries. If you pick up any paper today, you will read about the move for protectionism. I read an article by the president of the American Association of Shoe Manufacturers who argues that the shoe industry ought to be protected for defense purposes. He contends that the British nearly lost the Falkland Islands because of bad shoes.

A third reality is that the importance of trade to the U.S. economy varies not only between industries; it varies between regions as well. Trade obviously is much more important to the Pacific Northwest than it is, in a direct context, to Iowa. We are geographically poised near the most dynamic growth markets in the world. The Asian-Pacific Rim has had substantial market growth in the last fifteen years and is likely to continue to grow in the next fifteen. This growth has very important considerations for us.

I argue, for instance, that much of the commerce that spins around the community of Portland results from the fact that we have a major international port here. It is a critical mass that creates an investment center that wouldn't exist if you didn't have a large trade sector. I suspect there wouldn't be as many banks in Portland, even doing domestic business, if we didn't have the international business as an economic epicenter. Trade is important to this region in ways it is not important to others.

Reality number four: in a somewhat contradictory way, as trade has become more important to the U.S. economy, it has also become increasingly difficult for us to expand our exports. The U.S. economy is moving quite clearly to a service-oriented economy. Services are more difficult to export than products and commodities. Thus, on the export side it is becoming more difficult to achieve growth, and on the import side growth is easily accelerated. Look at the composition of the gross national product of the last 25 or 50 years. It is very difficult, for example, to export haircuts. But it is getting much simpler and more desirable to import, say, automobiles.

Reality number five: as important as trade is to the U.S., it is clearly more important to every one of our trading partners. In the U.S., trade directly makes up, depending on the year, from 16 to 20 percent of the gross national product. In addition, trade indirectly contributes an additional 10 to 12 percent of our gross national product. Very few countries in the world have less direct reliance on trade than we do. Events which seem compelling and powerful to us are much more compelling and powerful to our trading partners. That is why, if we take on a protectionist stance, many of our trading partners will respond in kind. It is more important to them. It is estimated that the Japanese economy relies on trade for more than 50 percent of Japan's gross national product as a direct contribution. The Korean economy, our number two trading partner in the Pacific Northwest, is higher than that. The Taiwanese economy is higher than that. Every one of the free-market economies, including the European economic community, is more reliant, more dependent for their economic health on trade than we are. We must not lose sight of the fact that, for our trading partners, it is critical. For many developing countries trade is absolutely the difference between survival and economic extinction.

One of the reasons this Administration's Caribbean Basin Initiative is not working is that at the same time we announced the program, we reduced the quota, thereby increasing the protectionism on sugar--their single biggest cash export. You cannot drive economic development if you are not willing to buy the product which creates the largest volume of investable foreign exchange. All the good things we proposed to do for the Caribbean are lost in the fact that we won't buy their product and neither will the Europeans. For many developing countries, exporting primary products is critical. Textiles and shoes are major generators of foreign exchange for Korea, Taiwan, increasingly the Philippines, and increasingly Indonesia. If these countries cannot sell their products, they can't do the other things that will lead them to economic development. These countries must have economic development to put them in a position to increase the consumption of our products, be they aquatic products, agricultural products, or whatever.

Reality number six: trade issues transcend strict economic considerations. When David Ricardo wrote his Principles of Economics, he instructed us that comparative advantage (the relative cost of producing goods and services) would be the invisible hand which would distribute trade between countries. Countries with comparative advantage would export to countries with a comparative disadvantage. Reality is not quite that simple. Comparative advantage is important, but it is all tied up in political, cultural, and diplomatic differences. These differences shade and alter trade relations dictated by strict comparative advantage.

A case in point is South Korea. People argue that South Korea should be importing food because it has a comparative disadvantage in agricultural production and a comparative advantage in labor-intensive manufacturing. However, South Korea can't manufacture labor-intensive products without importing petroleum. It doesn't have the foreign exchange to buy petroleum to drive its industry if it isn't a protectionist in food. It has a comparative disadvantage in agriculture, but a comparative advantage in light manufacturing which requires that it import oil. Comparative advantage is not as apparent as David Ricardo suggested. It is still an important concept, but we cannot lose sight of the fact that there are major considerations that transcend single economic explanations.

I just came back from the Middle East. One of the things I discovered is that if you are going to do business in the Middle East, you have to adapt to the Middle Eastern style of doing business, no matter how good your product may be. In Yemen, you could not sell a product that has an unveiled woman's picture on the package--it will not sell. In dealing with people in that region of the world, you have to forget the concept of time. It is just something that is not part of their business practices. If you an appointment at 9:00 a.m., it could be next week at 2:00 in the afternoon and no one seems to be shocked by that. We Americans come in and want to do business in our typical business fashion because we have a better bottom line (or comparative cost advantage), and we're surprised when we don't succeed. We don't get into the cultural-political mindset of the economies with which we are dealing.

Reality number seven: every sector, every industry--including aquatic products--must fully appreciate the fact that it exists in a very interdependent trade complex. Events which directly affect the trade in aquatic products are very complex and may seem, on the surface, unrelated.

For example, aquatic products compete in an environment with all other food products. If a consumer in the Philippines decides to eat more pork or more beef, he or she has implicitly decided to eat less fish. If the price of rice falls, it affects the consumption of all the products. We have tried to estimate demand characteristics for a number of food products consumed in Asia and we discovered that everything is tied to rice one way or another. When you are selling or buying a product, the rice complex in Asia is continually significant.

In the more advanced countries food products as a unit and fish products and others as individuals compete with all other goods and services. As incomes rise and people's diets reach something above the subsistence level, additional sales of food products must compete with everything from automobiles to roller skates to hair curlers. Trade linkages, as we deal with countries with different levels of income, are complex and very, very confusing.

Moreover, policy issues which seem to be outside of the food complex have an impact. One case in point is the linkage between the U.S.-China grain trade agreement and U.S. textile protectionism. The Chinese decided to renege on their long-term agreement to purchase U.S. grain. They simply did not buy what they had contracted to buy. They argued that they didn't, because we had imposed a quota on their textiles and that violated the spirit of our agreement of free trade. How do you deal with that? It is very hard to send the Multnomah County sheriff to Beijing to force them to buy the wheat. This set of relationships is confusing and constantly changing. We can't lose sight of that.

Reality number eight: trade (exports particularly) is not unequivocally good. Everyone says we must export more, but with exports come some problems. There is ample evidence that as you rely more and more on international markets, prices in the domestic market become increasingly volatile. Volatility is risk and risk is the cost of doing business. There is no doubt that what happens in this environment is that things like currency variations, changes in transportation costs, diplomatic interruptions, and all those other things tend to add volatility to the prices which people receive.

In the 1960s, the coefficient for variation for most ag product prices was about 13 percent; that is, on an average they varied 13 percent from year to year. In the 1970s and '80s prices varied 39 percent. This is perfectly correlated to the increased reliance on international markets. The major seller, in any case, gets many of the reverberations back in instability. The Europeans attempt to export price instability to us as do the Japanese. One must be willing to deal with these higher costs of doing business.

Reality number nine: if you succeed as an exporter or trader today, you are going to have a harder time succeeding tomorrow. This is particularly true in fisheries products. Every country with access to a fishery is trying to develop their fisheries industry. The Yemeni are trying to develop the Red Sea. The Moroccans are trying to develop the Mediterranean and Atlantic markets. Every country is using its fisheries as a springboard for exports. If you find a niche in the market and begin to succeed, there will be a number of competitors lined up to replace you. It is impossible to hold a major advantage without being extremely aggressive and very clever for a long period of time. It is true in every product I have noted. Someone will come along with a slightly better mousetrap and become more competitive.

Reality number ten: U.S. traders are almost always at a disadvantage in international markets because either they deal with state trading agencies in other countries or they deal in an environment in which their trading partners view the international market as their primary market. We have all sorts of laws which prevent collusion between firms and they are heavily enforced. We have laws which prevent bribery. In many parts of the world, bribery and collusion is a way of doing business. In many parts of the world, the government not only operates as a state trader, it encourages collusion among their various firms to attack the market in a single force. The American way of doing business, which really was built to service the domestic market, doesn't work quite as well in the international market. Here, individual firms compete with each other and try to compete with very large entities from very small countries in the broader world market. We can see what is happening with the Japanese trading firm coming into this region and getting deeply involved in our business. It trades everything and gets government encouragement and support. Our firms do not share such advantages.

Reality number eleven: the world is moving away from multilateralism and international trade relations to bilateralism. We have in place a treaty called the GATT (General Agreement on Tariffs and Trade), which says that we are all going to try to reduce tariffs and trade barriers on a multilateral basis. There is a good reason there has not been any movement toward another round of the GATT, and that is no one believes it will work. Most major trading nations are working on a bilateral basis now.

There are three major epicenters for trade in the world-Japan, the U.S., and the European Community. They are surrounding themselves with spheres of trading partners and they allow others into their trading sphere on the basis of whether these countries provide strategic or important inputs, if they are a major reciprocal market, or if they have strong diplomatic ties.

The priorities of the expertise traders vary. The Japanese tend to surround themselves with countries which provide them with inputs to their industry. The Europeans tend to surround themselves with countries which are important reciprocal markets, and the U.S. surrounds itself with countries which are important for diplomatic reasons. That explains why we do a lot of business with Israel, Egypt, South Korea, and so on. They are important diplomatically, not necessarily economically.

We are getting away from multilateral free trade and moving to a system based on bilateralism. It is going to change the way we look at trade and trade policy. We may have another round of the GATT, but the Tokyo round lasted five years. If one looks at the return from those five years, one could argue the return was trivial. Almost all major relations are taking place on a bilateral basis. This raises the concern that some countries will be left out in the cold; they simply will not qualify for anyone's sphere. We will end up with a greater north-south split in the world than we have today: the rich and their friends are going to be in one camp and the poor in another.

Reality number 12: whatever conditions exist today, they are certain to change tomorrow. The only thing certain in international markets is uncertainty. We have seen the ground rules change so fast that it boggles the mind. It was only 13 years ago that the U.S. dollar was dropping like a rock. When the Brettonwoods Conference fell apart and President Nixon (and later President Ford) devalued the dollar, people thought that was it. We had hit a new equilibrium; it was defined in the value of the dollar. In only nine years after the advent of the floating exchange rates, the dollar took off like a rocket and jumped 45 to 50 percent against major currencies. Now it is falling again. How far it will fall and how long it will fall are almost impossible to determine. And currency uncertainty is just one of the vast number of uncertainties which exist in the international market.

## AN UPDATE ON NONTARIFF BARRIERS TO TRADE

Richard Johnston

*Dick Johnston has been on the faculty of the Department of Agricultural and Resource Economics at Oregon State University since 1966. His teaching and research interests are in fisheries economics and seafood trade. Currently, he is chairman of the executive committee of the International Institute of Fisheries Economics and Trade and editor of the Western Journal of Agricultural Economics.*

The strategy of Bob McMahon and me on the panel here today was a good one. My research activities are in fisheries, whereas Bob McMahon's area of interest is the wood products industry. Both of these industries are based on natural resources. Both of these industries are important to the Pacific Northwest and both play key roles in international trade. It seems that each industry has a great deal to learn from the other. Bob and I discussed how we would operate here. Our plan is to review or outline some of the issues under the general heading of "nontariff trade barriers" with a few introductory remarks and leave most of the hour for discussion. Certainly there are many people in this audience who have direct experience with the effects of nontariff, and perhaps tariff, trade barriers, especially in seafoods. We hope that these individuals will share their insights and their experiences with us in the discussion session.

The first question that comes to my mind is, "What is a nontariff trade barrier?" An import tariff is a charge or a tax imposed by an importing country on imports while a nontariff trade barrier is a subtle but effective way of imposing restrictions on products entering a country. For example, the most recent data I have suggest that the tariff on fresh salmon imported by Mexico is approximately 79 percent of the dutiable value, which is a rather steep tariff. On the other hand, some countries set minimum prices at which imports may enter. These prices may be viewed effectively as tariffs even though they are labelled nontariff trade barriers. This is the case, for example, in the European Economic Community (EEC) which Mike Martin referred to earlier. There, these minimum prices are called "reference prices." If these reference prices are higher than the prices that would prevail in the absence of these minimum prices or reference prices, then they operate much as a tariff would operate. If the free market price of a good, for example, is $1.00 per pound and the reference price is $1.20 per pound, then the effective tariff is $.20 per pound. Between 1976 and 1981, for example, the reference price per fresh codfish entering the EEC rose by almost 70 percent. So these are not trivial issues. Of course, the minimum price or a reference price may not be effective. That is, it may be below the import price and thus may have no effect on the actual price at which the good enters the country. Tariffs, on the other hand, would be paid on all imports to which they apply. In any event minimum prices are an example of where a nontariff trade barrier could act much the way a tariff trade barrier would.

Thus, there is a close relationship between tariff and nontariff trade barriers. One authority defines a nontariff trade barrier as "a government regulation other than a tariff that directly affects the volume or composition of international trade." This seems to be a fairly useful working definition. But notice that "government regulation" rules out some of the issues that Mike spoke of earlier. It rules out language barriers, it rules out cultural barriers (about which we will learn more later today), it rules out consideration of the availability of substitutes (for example consider the appearance of farmed Atlantic Salmon in markets important to sellers of Pacific Salmon), and it rules out advertising (for example the "Buy America" campaign for automobiles). This definition refers to regulations that directly affect the volume or composition of international trade.

This, then, effectively removes the set of factors which are believed to be important in seafood markets, but whose impacts are indirect, such as production subsidies (for example the fuel subsidy in Spain which has hit the news recently), withdrawal prices in the Common Market, and minimum prices set for producers. Consider also favorable tax and loan treatment to the harvesting sector, exchange rate fluctuations, which have been mentioned, and other factors which have indirect influences on trade. All of these may have dramatic impacts on international trade, international seafood trade included, but dealing with those factors may require different strategies than those that affect trade directly.

Examples of nontariff trade barriers which meet the above definition are import quotas, licensing requirements, and government standards pertaining to health, labelling, and packaging. Government requirements regarding documentation, weights, measurements, and so on, are some examples. Satisfying the paperwork requirements alone may be very costly to importers and may prove a very effective barrier to exporting in total.

Some nontariff trade barriers are quite subtle, yet very effective. One example is the requirement by France that videotape recorders coming into that country had to pass through an internal, remotely located customs port which was severely understaffed. This was a rather effective and subtle barrier to importation of videotape recorders. It was subsequently replaced, as I understand it, by explicit restrictions on imports. Nontariff trade barriers can be very effective in reducing imports. They are clearly a form of protectionism. In his August 31, 1985 radio address, President Reagan stated,

> Protectionism is almost always self destructive, doing more harm than good even to those it is supposed to be helping. Instead of protectionism we call it destructionism. It destroys jobs, weakens our industries, harms exports, costs billions of dollars to consumers, and damages our overall economy.

Of course the President was speaking primarily about U.S. protectionism. But what about protectionism abroad? What are the effects of nontariff trade barriers on the countries which erect them? What about the effect on the internal economy of the country which imposes nontariff trade barriers on products coming into it? What would be the effects on the U.S. of these nontariff trade barriers being removed?

Consider one obvious deleterious effect of nontariff trade barriers on the importing country, the country which has imposed the nontariff trade barrier. Mike has already alluded to this. It raises prices. It raises the internal prices domestically. Thus, it seems to me that an appropriate strategy by the importing nation is to point this out to consumers in the importing country. In this endeavor the U.S. exporter has a natural ally: the importing companies in the recipient countries. For example, when the European Economic Community proposed a reference or minimum price for Pacific salmon when Norwegian Atlantic salmon were entering the Common Market, it was through the cooperative efforts of U.S. and Canadian exporters, the governments of the U.S. and Canada, and European importers that this proposal was reversed. Nontariff trade barriers may be relaxed through internal pressure once the importing country realizes the costs it is paying. I am not suggesting that this will necessarily happen, but rather, that domestic voices may be more effective than foreign voices in removing these barriers.

Nonetheless, government action may be appropriate in removing nontariff trade barriers. For example, this could occur through direct government-to-government negotiation or through international arrangements such as the General Agreement on Tariffs and Trade, although, as Mike has pointed out, its effectiveness is somewhat suspect. It is interesting, however, that in the area of fisheries it does seem to be playing an increasing role. At least there is a lot of discussion. I'm not sure how effective this discussion will be. In any event there is a role that government can play. However, again, industry action may be even more effective. In 1983, industry-to-industry negotiations between the United States and Japan led to increased action in Japanese markets for pollock and other groundfish, through both exports and joint venture sales.

Not all nontariff trade barriers are effective. Approximately 10 years ago the Common Market adopted standards on freshness and size for many fish species entering the EEC in fresh form. Removing or relaxing these standards may not improve the U.S. ability to supply fresh fish (for example mackerel and sardines) to Europe at competitive prices. However, relaxing those standards may increase opportunities for other suppliers of these products, thereby increasing competition for U.S. frozen products. The removal of nontariff trade barriers may help some exporters and harm others. It seems to me this point is worth emphasizing. For example, the EEC reference price for cod covers both Atlantic and Pacific species. Thus, lowering of this reference price will benefit not only the U.S. but also competing suppliers such as Canada. What the net gains are is not clear. Furthermore, it is entirely possible that nontariff trade barriers give relatively high cost countries a presence in the marketplace by keeping out competitors who cannot meet these standards.

Finally, let me make an observation on the U.S. "fish and chips" policy. Under this policy foreign countries desiring to fish in the U.S. Exclusive Economic Zone are encouraged to open their markets to U.S. seafood exports. There is a flip side to this arrangement, however. It has been suggested, for example, that one factor behind the increasingly protectionist attitude of the European Economic Community is the introduction of the 200-mile fishing zones which, in many cases, have affected the distant water fleets of the Community's member countries. Thus, we see evidence of an attitude favoring increased use of nontariff trade barriers if access to distant waters is denied. In a recent interview with Fishing News International, for example, the Director General of the Fisheries for Spain called for using access to EEC markets as a weapon for bargaining for increasing fishing rights by EEC vessels in Canadian waters.

Nontariff trade barriers can take many forms, and they are certainly important. However, in my judgment, we should not view them in isolation. Understanding their effects, the reasons for them, and the consequences of their removal may require that we understand internal motivation and conditions faced by our trading partners and that we understand the interdependencies between seafood trade and fisheries policies in general.

In some recent analysis, I was interested in trying to understand what factors influence international seafood trade, especially seafood exports by this country. I wanted to look at the role of nontariff trade barriers, and was particularly interested in the effect of the Magnuson Act (The Magnuson Fisheries Conservation and Management Act) which extended U.S. fisheries jurisdiction or management jurisdiction out to 200 nautical miles. I took a look at data that suggested that, in fact, the Magnuson Act had dramatically affected U.S. seafood exports. It seemed to me that it was relevant to compare these data with data for other sectors. I looked at comparable numbers for the U.S. agricultural sector. I found that, while in the case of seafood, there had been a rapid increase in the exports of seafoods, apparently as a result of the Magnuson Act, it also looked as if there had been an increase in the export of agricultural products as a result of the Magnuson Act and an increase in the export of manufactured products. That stretched my imagination a little bit too far and so I decided to look a little bit further at imports. As it turns out, if you look at what has happened to total imports over the past 20 to 30 years, they took off around 1976 and 1977, about the time of the passage of the Magnuson Act. This was true for fisheries, for agricultural products, and for manufacturing products.

The issue is, why does this happen all at once? I would argue that while nontariff trade barriers are extremely important and while the Magnuson Act has also been very important (it has especially demonstrated its importance in joint venture arrangements, including over-the-side sales to foreign processors in U.S. waters), the macroeconomic variables are every bit as significant in helping us to understand international seafood trade. I think that is in part what Mike was alluding to, as well.

Mike Martin spoke of exchange rates. The freeing of the dollar in the early seventies by the Nixon Administration, it has been argued, has had a dramatic impact on the income of agricultural producers because this allowed a greater degree of fluctuation to take place in the exchange value of the U.S. dollar. No doubt this is also true for the seafood sector. More recently it has been suggested that the Japanese yen be a reserve currency held by central banks of some countries. U.S. monetary policy and global monetary policy, it seems to me, have been instrumental in affecting global economic conditions.

If we focus only on nontariff trade barriers, if we focus only on the peculiarities of the seafood market, without paying attention to global macroeconomic conditions, I think we will lose sight of the big picture. I took a look at some recent data on seafood exports and seafood imports by particular countries. The pattern may lead one to infer that many countries are closing their markets. It looks as if seafood imports by Canada and by the EEC from the U.S. have declined dramatically, for example. But imports by the U.S. itself (despite the fact that we have a strong negative trade balance in seafood products) have, until the last couple of years, also shown a dramatic decline. While it is important to speak about nontariff trade barriers, and they are important, I think they must be viewed in a much more global context.

## Robert McMahon

*Robert McMahon, who is with the Department of Forest Products at Oregon State University, specializes in economics and marketing.*

When I was first invited to participate in this conference I wondered what part I, as a forest products economist, could play in an aquatic products conference. I wasn't sure there were any similarities. I didn't know what I could add or contribute. However, after Dick Johnston and I got together and discussed some thoughts about how we might share our time here, we decided that I ought to present some of the kinds of nontariff barriers that the forest products industry faces today to illustrate some of the general points that Dick has just made. He covered the general facts about nontariff barriers; I will provide some specific examples that inhibit the forest products industry's efforts to enlarge and expand trade.

The forest products industry has been involved in trade from the very beginnings of colonial days. I am sure that at that time and for many years thereafter we were a net exporter of forest products. As the years went by (and certainly in the last couple of decades), the United States became an importer of forest products. In fact, the U.S. is the world's largest importer of forest products today. This includes all kinds of forest products: lumber, plywood, composite products like wafer board and particle board, and pulp and paper. We are the world's largest importer of lumber. About 25 percent of our total domestic roundwood consumption in this country comes from imports. The U.S. is really a big factor in world forest products trade, but as an importer, not an exporter. Exports of forest products from the U.S. account for something less than 5 percent of our total domestic forest products production. In terms of volume, it is very small in relation to our total production. However, some of the dollar volumes are fairly significant. For instance, the U.S. is the world's largest exporter of logs, and that trade alone runs into several billions of dollars annually and is very significant here in the Pacific Northwest.

There have been some domestic developments with respect to markets, market location, and market share as a result of certain factors such as increased production of forest products in the South and a very heavy increase in lumber imports from Canada. These developments have caused some difficult times for the forest products industry in the PNW. I am sure many of you are familiar with those because they have received much attention in the media in recent years.

One result of being forced out of some of our major, traditional domestic markets throughout the entire U.S. is that we have had to look elsewhere to replace those lost markets. Part of the loss has been taken up by the growth in the Southwest and in California but that hasn't been nearly enough to absorb all of the production of the Pacific Northwest forest products industry.

Obviously another major place to look at was offshore markets, particularly the Pacific Basin countries. The U.S. has been exporting for some time, and our exports from this part of the country go to markets throughout the world. However, our major markets are Japan, Korea, and Australia. Because of the kinds of products we can produce here in the Northwest, some of which are of extremely high value, and much in demand, we actually have considerable trade with Europe and the Middle East. Much of this trade until recently was rather casual or incidental, and it was not pursued very vigorously by the forest products industry. As we now face the loss of our domestic markets, we have put forth a good deal more effort and thought towards attempting to expand our offshore markets. As we do this we have encountered nontariff barriers and even tariff barriers in ways we had not experienced before. These barriers are becoming considerably more important and much more interesting.

A few years ago I could find very little mention of nontariff barriers in the forest products literature. But within the last two years, there has been a considerable discussion of it.

What are some of the examples then? Dick mentioned in his definition that government regulation or action is a major aspect of these nontariff barriers. That certainly is true in our situation. One example is the Japanese refusal to test new products such as laminated lodgepole pine and Ponderosa pine lumber for inclusion in the Japanese agricultural standard which would make it possible to sell this product in Japan. This is essentially a government regulation.

Another example is the Japanese refusal to establish product standards for new products such as oriented strand board and wafer board. These are two quite new panel products, even in this country. We would like to be able to export them to Japan, but Japan has been reluctant even to consider standards for these products or to allow the U.S. industry to participate in developing such product standards, which govern the way in which the products are manufactured.

Another aspect is the Japanese refusal to recognize or accept the role of the American Plywood Association and the Western Wood Products Association, our two primary industry trade associations. They are involved in developing and enforcing both product and performance standards for forest products. So far the Japanese have refused to permit these two agencies to function in that respect for products exported to Japan. Canada is another example. It excludes U.S. plywoods by the imposition of highly restrictive standards.

There is another type of nontariff barrier which I would refer to as tit-for-tat retaliation. Mike Martin mentioned the situation with respect to Chinese textiles and apparel. The imposition of a quota here in this country on imports of those products from China resulted in a Chinese threat to impose restrictions on the forest products imports from us.

Another type of governmental action has been the United Kingdom's requirement for official certification that air-dried and green lumber is bark free. The reason is that officials are concerned about diseases and pests being imported on green or air-dried lumber with bark attached to it. This is a sanitary type of restriction which can be very effective in reducing or eliminating some of our trade. Of course there are a lot of red tape, licensing requirements, and so forth that Mike Martin and Dick Johnston have mentioned and which we encounter in a number of countries.

These are types of government regulations and action. There are some other restrictions which I refer to as quasi-governmental regulations: for example, fire and building codes that preclude or restrict the use of wood in certain construction applications. These are regulations in this country that are developed by industry associations, for instance, or quasi-governmental agencies, but they nevertheless have the force of law. They can be very effective in reducing or preventing the use of wood in application in other countries.

Another type of quasi-governmental regulation is the refusal to accept U.S. grading standards. This applies, for example, to waney wood, which is wood with bark on it. A two-by-four with a little bit of bark down one side fits into this category. It's commonly accepted in this country but highly objectionable in many other countries.

In this country we know that a two-by-four is not a two-by-four in actual measurement; we are used to this and accept it. In other countries, however, this is not accepted, is not understood, and is considered highly objectionable. If it is a two-by-four, overseas customers want it to measure two-by-four inches of solid wood. They won't accept any missing portions of a two-by-four; they don't want to buy air when they buy wood. They want it full sawn without any bark on it and with no missing wood.

White-speck plywood contains veneer that had a fungus associated with it while the wood was growing in the tree. After the tree is cut down and the veneer is peeled, the fungus dies. The veneer is used in the interior cores of plywood, but the presence of the dead fungus has no effect on the strength or utility of the plywood. However, some countries were very suspicious of this and refused to accept the plywood. Japan was one of the major countries, and only recently has its reluctance been overcome. We have been able to prove there was no particular defect in the product.

The EEC imposes quotas on annual imports of plywood. This is another example of quasi-governmental regulations. The EEC also has a requirement for fumigation of oak logs and lumber and a restriction on the geographic source of oak so that it can come only from areas here in the U.S. that are free of oak wilt disease.

Another type of nontariff barrier we encounter in this industry has to do with cultural traditions. There is, for instance, a bias against the use of wood in many countries for housing and even for other applications. This can be very difficult to overcome. It is true not only throughout much of South America but even in Great Britain. Long-standing cultural traditions can be very effective in reducing the volume of potential trade. There is also a lack of knowledge in many countries about the nature and use of wood. Overseas there has been no training in designing and using wood. It's fairly common in this country but very uncommon in other countries.

Obviously the purpose of much of this type of activity has to do with protectionism for the home industry, for jobs and income, but also it's an effort to keep out imported pests and diseases. Oregon had a nice example of that last year when California refused to accept Christmas trees from the Eugene area due to the presence of the gypsy moth. This was a very interesting example of a nontariff barrier between two states.

These examples that I've given are the types of nontariff barrier that I believe most of us think of when we talk about such barriers. In other words, it's what the other guy or the other government does to keep our products out of another country.

There is another category of nontariff barrier that is particularly interesting as far as the forest products industry is concerned. That has to do with what we do to ourselves by making it difficult, if not impossible, to export our own products. The forest products industry has had a long history of attitudes against exporting. As I mentioned earlier, because our exports are so small, exports have been a very casual or incidental part of our whole marketing program. One reason our exports are so small is that the industry has simply refused to meet foreign specifications with respect to size measurements, standards, and so forth. Our industry is a beautiful example of one that was entirely production oriented and had very little market orientation until recently. In other words, the producer says, "This is what I produce, this is what I cut, this is what I have to sell; take it or leave it." He is not interested in meeting his customers' needs.

Another problem we have faced, and continue to face, is that exports are considered to be incidental to the domestic marketing program. We have been in and out of the export market for many years. We are into the export market when the domestic market is down. We abandon the export market when the domestic market picks up. This has made it very difficult for those companies today that are interested in developing export markets to actually do so because our foreign trading partners are suspicious of the depth of our commitment to export trade.

Finally, there has been a belief on the part of many in the industry that foreign sales are more difficult, more troublesome, and more costly than domestic sales. U.S. industry simply doesn't want to be bothered. This whole set of industry attitudes can act very effectively as a nontariff barrier, but it is on the home or producing industry side rather than over there on the customer's side.

There are some other types or self-imposed barriers. We have restrictions against log exports, particularly from federal lands, and until last year we had restrictions on log exports from state lands in Oregon, Washington, and most of our western states. The U.S. Supreme Court voided those state regulations last year because they were considered to be an interference in international trade, which is controlled by federal rather than state regulations. We still have restrictions on log exports from federal lands, but can no longer restrict log exports from state lands.

Currently there is also a restriction against the export of cedar logs from the U.S. Obviously, it's an effort to protect one aspect of the forest products industry.

There is another example of what I would call rather bizarre reverse protectionism. This stems from the imposition of the Jones Act in the 1930s. The Jones Act is a beautiful example of how protectionism can unfavorably affect the very people it was designed to help or protect. This act effectively eliminated trade between the Pacific Northwest and domestic East Coast lumber markets. What had been a flourishing trade prior to the 1930s has virtually disappeared today. We have turned over the East Coast market, essentially, to the Canadians, who were not restricted by the provisions of the Jones Act. In essence, we forced our producers in the Northwest to drastically change their mode of operation and their markets and gave away a domestic market to the Canadians. A very curious example of shooting ourselves in the foot.

Another similar example current today has to do with protectionism, a sentiment found throughout the country (and particularly in Congress) regarding import restrictions on Canadian lumber. These restrictions could easily result in serious repercussions to those companies attempting to increase exports. Very briefly, if we impose a quota on imports of Canadian lumber, which has been suggested and there are bills in Congress to do so, problems will occur for U.S. lumber exporters. The import restrictions could increase the domestic price for lumber and consequently lead to an increase in the cost of federal and state stumpage, the timber from which such lumber is cut. This could make it very difficult for companies to export lumber, plywood, and other wood products because of the higher domestic product price. And this says nothing of the problems we already have with the high value of the dollar, which makes it difficult to export wood or any other products. Any impact that would lead toward increased product prices would make it just that much more difficult for exporters. Lastly, this could result in the Canadians becoming even tougher competitors for us in offshore markets. They already are much larger exporters of lumber and plywood products around the world. They are one of our stiffest competitors, and if we push them out of the U.S. market, that simply means they would have that much more product to export in competition with us. Protectionism can result in unintended side effects and make our own industry less competitive in export markets.

DISCUSSION

Question: You mentioned the Canadian restrictions on plywood. Are you implying that there is a double standard on the specifications? In other words, are the Canadians' specifications not as stringent for their own plywood as plywood from the United States into Canada?

Bob McMahon: The Canadians do have higher standards or restrictions as well as a high tariff that makes export of U.S. plywood into Canada practically impossible. There is very little trading for that reason.

Question: What about the Jones Act? I think the Jones Act is also applicable to the fishing industry in that the U.S. fishing industry cannot buy foreign-built fishing vessels and operate them in U.S. waters. I don't understand. If the Jones Act is interfering that much with trade and there are so many people losing markets because of it, why haven't we been able to repeal it? Who is supporting the Jones Act?

Bob McMahon: The Jones Act was basically an effort to protect the domestic maritime industry. Essentially, what it says is that any trade between two domestic U.S. ports must be carried in U.S. bottoms. Because of the fact that the cost of shipping in U.S. ships is generally higher than charter rates of foreign vessels, it makes it very difficult for the U.S. to compete in any trade that takes place between two of our domestic markets. I don't know what the effect is or what the ramifications are with respect to fisheries. Maybe someone else can help.

Mike Martin: One extension of the Jones Act is the Cargo Preference Act which says that of all aided U.S. shipments of food products (those that come under any government aided program), half must be shipped overseas in U.S. bottoms. There is an effort to increase that percentage. It has a tremendous impact here in the Pacific Northwest, at least on agricultural products like wheat. This region ships more aided shipments than any other. It has been my analysis that the higher rate we must pay for U.S. bottoms also becomes a reference rate for non-U.S. bottoms. They use it as a target rate and charge higher rates in all other products as well. I think there are some serious ramifications. The question asked was, who is supporting it? The maritime industry is obviously supporting it and practically any senator with a ship-building facility in his or her state. I can think of one in Massachusetts and one in Washington, who have supported, sort of through the back door, cargo preference and Jones legislation like the Jones Act to maintain ship building because it is a high-employment area. Additionally the U.S. merchant fleet and unions are willing to put a lot of money into lobbying. The Jones Act has some convoluted effects on the markets, not just for intercoastal movements, but for international movements as well.

Dick Johnston: In defense of the senators from Washington, I would indicate that hearings have been held on an irregular basis, and the senior senator from Washington (Slade Gordon) was a party to a set of such hearings held in Seattle about two or three years ago to deal with just that issue. He was faced was strong arguments on both sides of the issue (from the seafood industry and from the maritime industry).

Question: What about vessel-to-vessel transfers outside of the 200-mile zone in response to the Magnuson Act?

Dick Johnston: I'm not sure that I can speak to that one in particular, but it is interesting that when the abstention line was moved, effectively shifting opportunities for the Japanese to fish on salmon in Alaska, that meant that there were quite a few Japanese fishing vessels rendered essentially redundant. And as I understand the argument, a substantial number of those vessels were converted from fishing vessels to transport vessels. I think you can see some of the implications of that by looking at the U.S. seafood export figures from Seattle, vis-a-vis those from Anchorage, Alaska. I looked at the data about three or four days ago and it seems to have stabilized, but there was a shift away from Seattle into shipment out of the Anchorage, Alaska, ports perhaps in response, in part, to that phenomenon. Yes, I think that regulations stemming from the Magnuson Act have had repercussions, some of which we really didn't anticipate.

There are several individuals in this audience from countries other than the United States and the topics, for at least a portion of this session, include nontariff trade barriers. I'd be interested in finding out if these individuals would be willing to identify themselves and perhaps share with members of this audience some of their experiences with nontariff trade barriers to fishery exports from their countries, not only to other countries but to the U.S. market. I don't think the U.S. is guilt free when it comes to the erection of nontariff trade barriers.

Anybody willing to make a comment? For example, how about the importation of fish oil or mussels or some of the other fish products that some countries have been attempting to export to this country. Mike Martin's observation on the Caribbean Initiative for example was a very interesting one. We talk about assisting developing countries and comment on the problems they face in terms of the magnitude of their external debt, yet we don't always do a good job of making it easier for them to reduce that external debt by allowing imports of their products into our country. That is not a condemnation; it is just the way things work.

If we focus only on nontariff trade barriers, if we focus only on the peculiarities of the seafood market, without paying attention to global macroeconomic conditions, I think we will lose sight of the big picture. I took a look at some recent data on seafood exports and seafood imports by particular countries. The pattern may lead one to infer that many countries are closing their markets. It looks as if seafood imports by Canada and by the EEC from the U.S. have declined dramatically, for example. But imports by the U.S. itself (despite the fact that we have a strong negative trade balance in seafood products) have, until the last couple of years, also shown a dramatic decline. While it is important to speak about nontariff trade barriers, and they are important, I think they must be viewed in a much more global context.

## CURRENT FINANCING STRATEGIES FOR SEAFOOD AND RELATED PROJECTS

Warren Banks

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I think all of our speakers today have a big challenge in front of them: you, the audience. We have students, people from the teaching profession, businessmen and women, government folks, and no doubt people from miscellaneous backgrounds. With this in mind I tried to compose a speech that would have something for everyone. I hope that it does, but I have my doubts. To paraphrase, perhaps I will please some of the people some of the time. I also hope that my speech will make very clear if it does nothing else that there is export finance assistance available in the banking community. If you recall nothing else today, I hope it is that point.

This assistance, together with assistance available from a variety of sources, exists to help you make exporting a profitable reality. Your charge is to find your niche. That is always a corporate challenge and in this industry, it is becoming increasingly difficult to find, but it is there. While you know better than I the changes in your industry, perhaps some examples might be useful. In tuna there is only one processor left on the West Coast, and that processor is located in San Diego. The majority of processing done in the United States is done in a U.S. territory, Puerto Rico, which processes for catches from California through Chile and the South Seas. This is about 55 percent of the world's total tuna processing. Forty percent is done in Southeast Asia. The balance is in Europe. Many of the major seafood processors in the Pacific Northwest and Alaska now either are owned by the Japanese or the Japanese have a substantial stake in them. Other foreign involvement includes joint ventures with the Soviets.

What has happened to the processors? Basically, overcapitalization. When the industry was at or near its peak, few people forecast a bottom, and there always is one. The energy industry is another example. Too many boats, as well as processing facilities were built. This was compounded when the downturn came with a high labor burden, primarily in processing. Some companies were simply mismanaged.

This indicates that U.S. companies engaged in exporting have three primary choices: 1) brokerage, which might include barter; 2) offshore investment in processing or fishing; and 3) joint ventures in fishing, processing, and sales, including barter arrangements.

My remarks concerning the financing of seafood will be guided by the fact that seafood is viewed as primarily a commodity business. I will cover the following topics: formation of an export department or company, export financing (which will include traditional methods), insuring against commercial and political risks, and nontraditional financing.

The formation of an export department must include, from the very beginning, a commitment from the chief executive officer or owner to export. The commitment must be for time, money, and people. In order to obtain this commitment, a business plan and strategy must be developed. It may take six months to a year to do and another year after implementation before results begin to show. Failure to develop an adequate business plan and strategy will result in wasted resources. The business plan should include market research information, including product modification, if any, from U.S. standards. Market research will include the universe for the product or products for both U.S. and the foreign markets. Once this is determined, it should be clear where the markets are, and therefore time will not be wasted in trying to penetrate countries where there are none. For example, the research may show that 50 percent of the market is in the United States, 25 percent in the European Economic Community, and 25 percent in Japan, Taiwan, Hong Kong, and the Philippines. Hence, efforts should be directed toward these areas and not, for example, Bolivia.

Sources of information include the U.S. Department of Commerce (U.S. and Foreign Commercial Service), OSU's Department of Agricultural and Resource Economics, the state of Oregon Economic Development Department, the U.S. Department of Agriculture, industry trade associations (local, regional, and national), universities, foreign trade promotion agencies, and commercial consulates or attaches, ports, chambers of commerce (local and American Chambers overseas), local or regional generic trade organizations, custom house brokers and freight forwarders, U.S. banks with international departments and local branches of foreign banks, libraries, others in your industry, CPA firms with international offices, and law firms with international expertise.

Secondly, the plan must include how the product will be sold--direct to the end user, through an agent or distributor or representative, through your own sales force, or through a joint venture or trading company.

Third, the plan must cover resources required at various stages of growth in terms of personnel and money. These stages include research, product introduction, and the first two to three years after introduction.

Fourth, the plan must cover financial information in terms of cash flow relative to the efforts previously described. Fifth and finally, the plan has to contain the strategy to accomplish the goals set forth.

Once export sales begin, some form of financing will be required, which is the next topic. However, before we cover that we need to look at a step which precedes sales as well as helps determine to whom sales will be made. This is credit information. Credit information on potential buyers (whether they are end users, agents, distributors, representatives, or joint venture partners) must be a factor in the choice of the same. Credit information may be obtained through a bank with an international department, through a World Traders Data Report obtained from the U.S. and Foreign Commercial Service of the U.S. Department of Commerce, from Dunn and Bradstreet International and from others in the industry. Armed with this information, you can determine what terms to offer the buyer. If the buyer will not meet your terms and you are unwilling to offer softer terms, you either pass on the business or you see your international banker to see if there is an acceptable alternative.

What are the financing alternatives? There are several which I will discuss in order of increasing risk to the exporter. They are cash in advance, letter of credit, documentary collections, clean collections, and open account.

Cash in advance means you don't ship unless you have received cash in advance. The problem is that the buyer doesn't know that you are honest; therefore, this method is little used.

Irrevocable letters of credit are perhaps the most used, particularly for non-European sales and particularly for new accounts and large dollar amounts. The process is that your buyer requests his bank to issue a letter of credit for up to a particular amount of money, calling for shipment of the product by a certain date. The letter of credit is advised through the foreign bank's U.S. correspondent, which is hopefully, but not always, your bank. Your bank in turn gives it to you, the beneficiary. The letter of credit calls for specific documents evidencing shipment, such as bills of lading, packing lists, invoices, and perhaps inspection certificates, which together with a draft, are presented to your bank for negotiation. If your bank finds that all the documents called for by the letter of credit are in order and meet the terms and the conditions of the letter of credit, your bank will obtain reimbursement from the issuing bank according to its instructions and pay you. This process, once the negotiation period starts, normally takes from one to five days. In this case everyone wins--the buyer gets his goods and you get paid. The only problem from the buyer's view point is that for a letter of credit to be issued, a line of credit must be established by the buyer's bank, and the line for letters of credit uses up borrowing capacity. There are also fees involved for issuing the letter of credit and negotiating it. In total, these may run from .5 to 1 percent of the total sales. Some of these costs are borne by the buyer and some by the seller and are usually negotiable between the two.

You have heard me say that there are terms and conditions specified by the letter of credit. Of significance is the terms of sale. The letter of credit may call for payment at sight, or in 30 day increments, up to 180 days after sight or shipment. If not at sight, the letter of credit is called a usance credit. This means that you get paid in accordance with the terms. This is a matter again of negotiation between you and your buyer. You may factor your interest costs into the price when it is not at sight. And if your bank considers the issuing bank an acceptable risk, it may buy or discount the draft from you without recourse. If it does not, it still may buy the draft from you but with recourse. This is a matter to discuss with your bank prior to instructing the buyer as to the terms and conditions you want in the letter of credit.

You may also take this one step further and, after discussions with your bank, instruct your buyer to have his or her bank add the terminology, discount charges, and acceptance commission for the account of the buyer or the seller, whichever you negotiate. In this way your bank will accept a time draft drawn on it creating a bankers acceptance, without recourse to you. If the discount charges are for your account, you receive the discounted proceeds after negotiation. If it is for the buyer's account, you receive face value.

Letters of credit may also be confirmed by a U.S. bank. This may be requested by you if you believe the buyer's country is politically or economically unstable. In this way if anything happens to the buyer's bank before shipment you are assured of payment by the confirming bank as long as you meet the terms and conditions of the letter of credit. There are many features to a letter of credit. Therefore, prior to asking your buyer to issue one, it would behoove you to discuss these features with your international banker.

The next step down in methods of payment is the documentary collection. It has most of the same features of the letter of credit in terms of documents which are stipulated between buyer and seller during the sales negotiation. However, while most of the documents are similar, there is no letter of credit. Instead, the exporter presents his bank with a letter of instructions with the documents which asks the bank to forward the documents to his buyer's bank for collection. When the documents are received by the buyer's bank, that bank notifies the buyer that the documents have arrived. One of the documents is the bill of lading without which the buyer cannot pick up the goods.

The main difference between the letter of credit and collection is that the buyer's bank has no mandatory obligation to pay. The buyer may refuse also to pick up the goods; in this case, his bank notifies the exporter's bank, who notifies the exporter. If this occurs, the goods sit in impound until the seller can dispose of them. The buyer knows this and can use it to his advantage, particularly in any commodity industry in a falling market. As a seller, you would have three choices. Write off the shipment, resell it to someone else in that country or another country nearby, or lower your price until the buyer accepts.

These are the dangers of collections. It pays to know your buyer well. You may, as in letters of credit, offer usance drafts, evidencing extended terms to your buyer. The industry and competition dictate sales terms and conditions. If terms are extended, then the buyer must come to the bank and accept the draft, thereby agreeing he will pay at a stated maturity date. You are advised through your bank when this is done. The buyer then gets the bills of lading and other documents and picks up the merchandise. Even though your buyer has agreed to pay, he still might not. However, defaulting would subject him to legal action.

I should mention that the buyer will usually not actually come to the bank in either instance (that is, whether it is at sight or a time or usance draft) until the goods have arrived, since he doesn't need the documents until then. Thus, there is usually a waiting period of some time between the date you send the documents and the time your customer comes into his bank to pick up the documents and settle the payment.

The next method would be the clean collection. This is only a draft and perhaps an invoice sent on a collection basis through your bank. The only reason to use a collection is to put the banks in the loop to trace payments or lack thereof. It is a lot easier for your bank to initiate tracing processes, in many cases, than it is for you to do so. Collections are usually used when you know the buyer well and have confidence in his integrity and financial responsibility. This may also be demanded by convention in certain markets. You then have to assess the risk.

Let me illustrate what can occur in the collection process. Historically, lumber has been sold into Europe on a collection basis. Two years ago a Northwest company shipped about a million dollars worth of lumber to an Italian company. While the goods were on the water, the exporter found out that the importer was about to file the equivalent of Chapter 11. The export manager counseled with us, with local counsel, and with Italian counsel. Without making the story long, the credit manager flew to Italy and convinced the buyer not to accept the goods he couldn't pay for. The goods were subsequently sold elsewhere in Italy. The same firm was not so fortunate with goods previously shipped to another buyer and suffered a substantial loss. This points out the problems with collections with respect to payment but also points out the need for careful and continuous credit monitoring and prompt follow-up and action.

The last means of financing is an open account. You send an invoice with terms to your buyer along with a bill of lading. The invoice, or more normally, a cover letter, sets forth how the company should remit payment. In all cases, other than a letter of credit, you should stipulate a wire payment. Otherwise you will receive a check which will have to be sent, on collection, by your bank for payment. This further delays the time of ultimate payment.

You may have asked yourself by now if the risks are worth the reward. The answer is yes, if you adhere to your own standards of sales terms which should be part of your business plan. You may further reduce your risk by obtaining credit insurance. Basically there are two sources: (1) the foreign credit insurance association, or FCIA, which is an arm of the import/export bank of the United States, and (2) private carriers. Many banks carry FCIA coverage, as we do, under which exporters may be insured. Some banks and companies are obtaining policies from private carriers to replace their FCIA insurance. There are other sources of FCIA insurance which may be obtained from a national insurance broker, as may information on private insurance. Under FCIA, political and commercial coverage may be obtained or political risk only. Primarily, that is currency transfer risk. Normally, policies are insured for 100 percent political risk and 90 percent commercial risk. Private carriers generally cover on a 90-90 basis. All exports under both types of policies, FCIA or private, are usually required to be insured. This is called "whole turnover" or "spread of the risk." The positive aspects of FCIA coverage are the relatively short waiting time from default until payment and the 100 percent political risk coverage. The negatives are paperwork, reporting requirements, our buyer approval delays, and somewhat limiting coverage. The latter may not be important if countries covered are your markets; however, some countries are not covered, primarily communist countries. If you work through a bank policy, they will eliminate most of the paper-work problem. The main drawback to private carriers, unless you are a large exporter, are the minimum annual premiums of $50,000 and delays or a waiting period for receiving payment from the time of default. These delays can extend two years or more in some countries.

Why should you insure, other than for the obvious reason, which is to protect against default? Once a buyer is insured, your bank is more likely to finance that receivable by purchasing it from you without recourse.

How much does insurance cost? It can cost anywhere from 1 to 2 percent of sales. All this may sound expensive. You might determine whether or not it is by asking what the write off for bad debt of one sale might cost. If your average sale, for example, is $100,000 (or less in some cases, depending on the size of your company) and most sales are not under letters of credit, insurance might open new markets for you.

We finally come to alternative sources of financing. I will not include barter, as that will be covered by our next speaker and others as well. Our overseas branches and offices of Bank of America (our sister bank) enable us to offer some nonrecourse financing or substantially nonrecourse financing if our overseas offices or Bank of America offices are willing to extend lines of credit to your buyers. By discussing potential buyers with you, we can determine if we have or are willing to establish a line of credit for them. If so, we establish credit limits under which our overseas offices will purchase without recourse, or substantially without recourse, drafts accepted by your buyers. You then receive the discounted amount (or if your buyer has agreed to pay the interest, the face value) after the buyer has accepted the draft and presented it to our offices. For example, our London branch has established lines of credit for five major UK seafood importers for the purpose of purchasing drafts drawn on these firms by U.S. exporters. This would cover sales terms offered on non-LC (letter of credit) terms. This type of facility speeds the corporate cash flow, reduces risk, and increases sales opportunities.

I have covered somewhat briefly the major types of export financing. Mentioning, let alone elaborating on, all types or variations on those mentioned would take at least the rest of the seminar. What is needed by an exporter is a good working relationship with his international banker so that the banker can understand the requirements of the exporter and explore and advise on traditional and nontraditional means.

The exporter must keep in mind that the international banker has the following in mind: meeting your needs at minimum credit risk to you and to his bank. Therefore, he may not always be able to do what you wish. But he should have alternatives. Listen carefully in these situations. Either he is trying to protect you or he doesn't understand export financing. You need to decide which.

## DISCUSSION

Question: Could you discuss the issue of services between one bank and another?

Warren Banks: They vary widely. First, if you are talking about exporting, I think you will find it almost mandatory that you have a relationship with a bank that has an international department and a relatively active one. I can't go much beyond that because some very small international departments do as good a job, if not better, than banks that have offices worldwide. It really depends upon the knowledge of the individuals that you talk to, their experience, and how they can get things done more than it does the bank and its capabilities. There are many ways to skin the cat, and I guess I would say that you need to find someone who is a bit creative and can go beyond the normal routine things. Look for someone who can do things to try to solve your problem. The banker may not always be able to, particularly depending on the countries involved. The banker may not wish to take a particular risk in a particular country unless things are structured in such a way that everybody wins. I think that is the key answer. In Oregon, there are U.S. National, First Interstate, the Oregon Bank, Pac West, ourself (Seattle First International Bank, Portland Branch), Rainier, the Hong Kong-Shanghai Bank, the Bank of California, the Bank of Tokyo, and the Canadian banks, although I don't know how active the last group has been. They include the Canadian Imperial Bank of Commerce (CIBC), the Royal Bank of Canada, and the Bank of Nova Scotia. Those are the banks in this state that I know of with international capabilities. If you go outside that group, you are going to have to work through your bank, who will in turn probably work with one of those banks to get something done. It gets a bit cumbersome. Certainly use your international banker because the advice is free. It is one of the few sources you can go to and not get charged by the hour. Usually the advice is pretty good.

Comment: That is a very good point because many international lawyers charge about $105 per hour to talk to someone about international banking. I am not a banker, but I would like to add that when you are working with an international division of a bank, make sure one of your first questions is, "Are you a corresponding bank thereof?" You can get halfway down the line and find there is no communication.

Warren Banks: You are right. There are two choices. Up front you should make sure you know who your buyer's bank is and then ask your bank if it is a correspondent of the buyer's bank because that will smooth things such as payment between the two banks. In general, it probably is. If not, there are two ways to attack the problem. One is for you to change banks. The other one is to try to get your bank to open a correspondent relationship with the buyer's bank, or perhaps the buyer has a secondary bank.

Question: What do you do about confirming a letter of credit because the buyers bank doesn't have enough deposits?

Warren Banks: Usually that won't happen if the issuing bank is requested at the initiation of this process to have the letter of credit confirmed by a U.S. correspondent. That bank will usually go to the U.S. correspondent that he feels fairly certain will confirm it. If the U.S. bank doesn't, your alternative is only to go back to the buyer and say, "You better go to another bank because my bank won't confirm it. When you find another one, please let me know who it is so I can send it to them." That doesn't happen too often, if that stipulation is in the credit. However, I have seen credits that were requested to be confirmed, and the U.S. bank says, "We do not confirm." Not very often, but it does happen.

I have an answer to a question that wasn't asked. You can figure out what the question is. We talked basically about U.S. dollar financing. In order to penetrate some markets or to increase penetration, particularly in light of the strong dollar, you might consider quoting in dollars the currency of the buyer or a third country's currency. Banks can help you with this and further protect you against currency fluctuations between the time of the quote and the time of the receipt of funds. This is called "hedging," and it is accomplished by entering into a contract whereby you agree to deliver to your bank a specific amount of foreign currency in the future and the bank agrees to deliver to you a specified amount of U.S. dollars on that date. A lot of exporters in this country particularly do not take advantage of foreign currency invoicing. However, we have seen some shift toward doing that, particularly in the last year and half to two years. It increases the penetration of sales efforts by these companies dramatically. You might keep that in mind. Don't shy away from it.

# EXPECTING THE UNEXPECTED: PRACTICAL ADVICE FOR COUNTERTRADERS

Calvin Van Pelt

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I was recently reminded by a friend of mine that there is not much new in countertrade, barter trade, and so on. There was an article in the paper this morning, which I am sure many of you saw. It was about the building of a replica of the sailing ship Columbia, which is going to occur at our waterfront here in Portland. The story was about this vessel coming from New England many years ago. The ship was stocked with nails, spikes, and related things. En route, men on board made knives, spoons, and various small hand tools. When they arrived in this country, they traded that surplus commodity for surplus commodities from the Indians, who had an overabundance of furs. The Indians used furs to buy hand tools because they had no metal. In turn these surplus furs were taken to the Orient and exchanged for tea. The tea then went back to the northeastern part of the U.S or to Europe and completed the cycle. They this did over and over again. We are not doing much more than that now.

What we are seeing is a world in which there are a lot of order-hungry exporters facing a lot of people who are eager buyers. These buyers have a need to buy, but don't have currencies that are freely exchangeable. That causes a new type of business. It is new to many of us in this room, certainly new to most of us in Oregon. It is going to develop considerably. This type of business represents roughly 8 percent of international business. It is growing rapidly, and will continue to grow for as far ahead as we can see.

Countertrade has been primarily used by the big companies: Boeing, Coca Cola, Sears, Caterpillar, and people like that. They have been selling their products to countries that don't have money, taking other commodities in exchange. This has been a great facilitator in what the world has much of now: oil. It is not limited to the people who have exchangeable currencies and arms.

Barter trade was what was happening between the furs, nails, and so on where one commodity was exchanged for another. The world isn't that simple anymore. Instant communication and transportation improvements have made it necessary that we go into countertrade. Countertrade means taking the value of those items and converting it into something it is being exchanged for. We in the U.S. have been discouraged somewhat by our government on this. However, we are recognizing the reality and certainly many departments of the government now are encouraging this type of trade. For most of us in this room, talking about Coca Cola and Caterpillar, shiploads of arms and oil, is interesting reading but does nothing for me. It doesn't feed my children.

How are we going to get this down to us? How are the people in this room going to benefit from, get involved in, or stay away from countertrade?

Vienna traditionally has been the center of countertrade because it sits immediately between the Eastern Block, which was the main area of the world that did not have convertible currencies, and the West. We certainly have used it in our company and will continue to be in Vienna frequently.

However, that only starts the transactions. No matter what the transaction is, no matter how eager the parties in these transactions are to make money, to help each other, to satisfy their own needs and greeds, the terms of the trade, the pricing, and the movement of specific commodities are extremely complicated.

I have been in international business all my life and certainly get tested daily as to how we go about making a transaction move. Warren Banks, who's here today, has sometimes helped facilitate the process.

If I were to pick one major problem that our firm has, it is that we are basically a European company with our main and only U.S. office here in Portland. We are dealing between the Eastern Block and the so-called Western nations. Germany and America are the two primary Western countries. Romania, Yugoslavia, and Russia are the primary Eastern Block countries with whom we work. This takes us many other places, throughout Latin America, the Orient, and so on.

We have got to find the way for a market economy to understand a nonmarket economy and believe me, that is not easy. That is very simple, though, compared to helping the nonmarket economy understand a market economy. This includes getting a nonmarket economy to understand such things as weights and measurements, delivery dates, quality control, and, of course, pricing. If you are going to price, most of our transactions go through about three currencies before we finally reach an agreement on what the value of this commodity is.

I am not meaning to put up a big smoke screen or say, "Ain't we great?" That is not the case at all. We slug it through and work on one thing at a time. Our company in Portland is a little over two years old and we are just now completing our first transactions. You have to have some holding power to do this.

We have carried out transactions through Europe, of course, during that same period of time. Europe is considerably more sophisticated than the U.S. in these fields, in my experience. We have had transactions moving there all the time. As far as this country is concerned, we are just getting transactions together.

I assume at least some of you are thinking, "This all sounds great and scares me but what do I do about it?" "What if I want to sell? How do I get money in the bank for my products?"

Of course, that is what it boils down to. How do we get the money in the bank? You have to have enough knowledge of both markets to be able to match the need with the supply.

You can try to work on everything and probably not get much done. We have limited ourselves mostly to engineering products that are sold to the manufacturers of components of original equipment. These are somewhat simpler, in our case, to work with and easier to understand. However, major projects are available from others like Sears, Coca Cola, and so on. They are dealing in large dollar values and must, of necessity, move huge quantities.

Many horror stories are told. I think that it was McDonald Douglas that ended up with so many tons of ham from Yugoslavia, they finally ended up giving them away to their employees as Christmas gifts. A company like ours, or maybe like yours, cannot survive on giving Christmas gifts. We have to trade for things which are really functional.

We find that, in most cases, dealing with Eastern Europe we are dealing with government centrals. Most of the communist block nations have established central trading agencies which have under their umbrella a whole series of industries within their country. These industries in themselves do not understand cost accounting. Don't misunderstand me. I am not talking down to them at all. They are excellent, well-run organizations for the most part. But they are marching to the beat of a different drummer.

"How much?" is a question which stupefies them. In most cases the man that runs the factory is charged with keeping 7,000 people working, the raw materials coming in, converting them to finished goods, and shipping them out. He is not involved in the accounting. Very often, it has been our experience that the central trading company (which would be located in the capital city in most cases) has the duty of setting prices. Let's say they visit a market frequently for a product and have learned that this product in America is selling for $7.30 ex-Taiwan. So they know that is the price they are going to have to meet if they are going to compete in the import market. They will quote it at $10 to us, knowing that we also should know that it should cost $7.35.

Then negotiating starts. You are in a very weak position in negotiating, because the stakes don't involve the things that they do here. You don't have the solid things on which you can pin yourself. Seven thousand people come to work every day whether or not they are making this or something that they give for trade credits to the Russians. They would much rather work with us because they get hard dollars, but how do we reach that price?

We must be knowledgeable going in. We must be fair and so must they. In virtually all cases we can finally get there after much pain and suffering. In the meantime, the market forces in this country can pass us by. Such things as delivery dates, model changes, and seasonality are a problem. We are not as sophisticated as the Orient in using patience in our dealings. Certainly, everyone has more patience than Americans do when it comes to business transactions. That is not always to our credit (or to our strength) in making these negotiations.

In any event, if you are trying to sell to these countries, then you get down to barter trade. We've been involved in that as well. Basically, it involves things that they can use in their manufacturing industries. We have sold a great deal of metal working equipment out of both Europe and the United States to Romania. This comes about, however, in a different way, which is a variation on the countertrade we are talking about today. That is part of our negotiations. If we want to buy an item from them, we say, "If we buy this from you and pay you $15 for it, we expect a countertrade credit of 70 percent." That means 70 percent of the $15 is reserved for them to buy something from us. Complicated, yes, and it means that we run a balance of trade within our company with each of the central trading agencies. They will try very hard to resist. It doesn't mean a great deal to them, but they are all in the mode of trying to pay back the foreign debts and trying to develop a surplus of hard currencies. They will resist giving us that 70 percent even though they need to buy from us. They will try to make it 50 percent or 30 percent or nothing. We then have the advantage of being the hard guys and saying that we can't buy unless we get these countertrade credits.

How do you learn about countertrade? One way is mistakes, but there are people involved who can help you a great deal. Don't get involved unless you have two years to spend educating yourself, getting up and running and trying to get the cash flow moving. It is going to take you that long.

As you get into the transactions, the securing of finances that Warren Banks talked about is all very much a part of the process. It should be an immediate part of your business plan. Probably more emphasis should be there than any other place.

The final getting of the money once the goods are en route is what keeps the next deal moving. We have had cases where we were dealing with mostly West Coast America and we were bringing in goods from Europe. We quite often get shipping lines which are Soviet flags or other flags which don't keep to their shipping schedules. They will have a Los Angeles destination and will drop off the cargo at Charleston, South Carolina. That is where they happened to be going on that voyage, but they never told anyone. We have our through bills and we are theoretically protected in getting the cargo here. However,nobody is very anxious to move it at that time because the domestic overland company has got to go back and collect their money from the steamship line. It always gets here but you have to mind your p's and q's.

As far as getting started, you should let either your immediate needs, with which you're familiar, or the current business of your company guide you in buying or selling. I don't think that anybody in consumer goods is going to sell much to the soft currency areas. Some things are sold, but mostly they are black market stuff like Mustangs, Levis, and hair sprays. I doubt very much (though somebody may prove me wrong) that you are going to sell many automobiles or American-made finished goods that America produces. This is not only because of the strong dollar, but also because our production costs are very high. We have to adjust to what exists in the world right now, which is importing. That is where we find ourselves, out of necessity. We have a favorable trade balance at the moment within our own company. We are exporting more than we import, but that is only because we have some hard-currency exports. I don't see that expanding a great deal.

Almost all of the suppliers who are dealing in the countertrade or barter trade have very strict laws on their books. They cannot export anything without totally secured financing. This means they can't ship it and wait for the money to come back. They have to have a guarantee, a prepayment, or a letter of credit that is immediately available and negotiable in their own country. I don't want to duplicate what Warren said, but it is very important that correspondent banks be there. If there is not a correspondent bank in that country, that is, if we deal with a bank that doesn't have correspondents there, we are going to have trouble on our transactions. At least, our transactions are slowed down considerably. For that reason we have had to seek out more major banks than we would ordinarily be using.

As far as commodities that you might like to find, it is amazing how much information is available right in most of your offices. I am referring to the Exporters' Encyclopedia. I think virtually all exporter encyclopedias will give you a list of the major trading organizations, or "centrals," in countries likely to do countertrade. If you go through those centrals listings in your exporters' encyclopedia, you will find a list of the commodities they generally handle, on both an export basis and an import basis. The encyclopedia will also give you the organizations' full names and addresses. Writing is very, very undependable and very slow. We deal almost exclusively in telex and telephone. Telephone suffers because of time zone differences and language differences, so all binding transactions are either in person or telex. We keep our lawyers with us at all times on these transactions and the telex for the details. We find the telex very good to work with from the standpoint of product modifications. Telex also facilitates our ability to shift to different weights and measurements. Those are things that are very definable. Conversion charts, whether they be for temperatures, measuring devices, weights, shipping distances, or other things that are precise, are relatively easy once you clearly define what you are using.

We have most problems with things like the demand of this market on seasonality, delivery dates, and the actual flow of the business. We will have very rapid correspondence, with telexes daily going back and forth, and all of a sudden we just hit a dead spell. We never get an explanation for this. Frequently, and particularly in Romania, someone with whom you have been dealing for months and who is apparently in charge will suddenly no longer be there. When that happens you don't ask for that person any more. Someone else replaces him. When they travel here you have to be prepared for the fact that they never have any money. They are very good guests. It is unfortunate their governments do not give them any money for other than immediate transportation. We have to supplement them considerably. They do stay in flophouses when they have to, but if you are a major supplier for them, you want them where you can find them. You want them where you can work with them. Thus, we have to supplement the hotel and the meals, etc. It is a small thing, but it is more than a little bit embarrassing to them.

The absence of a profit motive is really hard for us to understand. Many women are involved in Eastern Europe; I think the most effective managers we have are the women that come here. The women seem to be a little more dedicated than the men at times. In any event, whether the order that we eventually give to them is for one, one thousand, or ten thousand truly doesn't make that person's heart beat a bit faster. When we are all through with these negotiations and we've met the minimum requirements that they've had and we've had, and we say, "By the way, you will be pleased to know that we want to order twice as much as we thought we were going to," the Eastern European just says, "Oh, I've got to erase all those numbers." That's about all he or she sees it as, because it does not benefit the dealer in any way. The benefit that accrues to such people is they keep their jobs. The people who have the jobs in the foreign trade companies of Eastern Europe travel abroad and work abroad. They have considerable benefits like good food to eat when they are away. Most of them don't have that at home. They want to keep their jobs!

The penalty for mistakes is very severe. We hear that. I have never seen it personally but they end up back on the drafting board or production table or swinging a hammer if they foul up on these details, so some of the delays occur from their being supercautious.

Careful and exact is one thing but supercautious is another. At times, it is very maddening to us because we will have telexes going back and forth. "Did you say $5?" "Yes I said $5." "Are you sure you said $5." "Yes I said $5." We will sometimes lose two weeks with conversations like that going on. And it is just their being supercautious. Again, I am not talking down to them in any way, because they have to work within their system and we have to work within ours.

We are one of only five U.S. companies that has been given accredited offices in Romania. We have our own staff of people there. It is an absolute must. Unless you have representation on the spot in these countries, I just don't know how you would get business done.

For every telex we send, we send a copy to our office in Romania, and they follow up on it. Our own staff realizes the urgency. "Our own staff" is in some ways a misnomer because while we are authorized to have an office there, we must hire Romanians to staff it. We happen to have five Romanians in our office there. They are provided to us from a manpower pool controlled by the central trading company. We pay what would be about half the Western market salary to the government. The government in turn pays those people peanuts. The government makes a little profit on that but we have had excellent people. In fact, the manager of our operations in Bucharest disappeared about two months ago. We were supplied a new man who is much better. We have no idea what happened to the other man or why, nor do we ask. Again, I am not trying to make it sound like cloak and dagger. But these are some of the realities of working.

You must be very careful when you employ these people. Do not accrue anything to them abroad. It may look like the right thing to do for your Eastern European employee, but never say, "You know, we have had a wonderful year, we are going to put a bonus in the bank for you here." I think that is where most of these things break down. I've heard this from a number of companies. If the Eastern government suspects that their people are playing any currency games, they are out. The government's greatest fear is of defection. If we have more than two visitors from Eastern Europe, almost surely one of the group would be a security person. It is the one who doesn't know anything about what we are talking about. When he is introduced he hands his card and it says he is technical director of something. Don't ask him any questions. He is, in effect, sort of a policeman making sure that nothing happens. One of the sad things about this is, in virtually all cases, these people can never bring their family or their wives on these trips, even as a vacation. They are in effect held there to make sure the delegate does return and does not defect. It doesn't have anything to do with security; it is just that defection is the ultimate slap in the face to these economies and to these countries. It is big news whenever it happens.

We are facing some changes in Romania that we have to watch very carefully. Stepping back a bit from the transactions, it is extremely important that we be very aware of legislation in this country. In the case of Romania, they have "Most Favored Nation" status, which is renewed annually. They are also granted GSP status. I think all of you are aware of MFN and GSP. "Most Favored Nation" means the nation enjoys the lowest common tariff between trading nations. GSP is the "Generalized System of Preferences," which is given to many developing countries and which in effect lowers (or negates totally) duty rates on goods brought into the U.S. on selected commodities. This is to help a country get its economy up and developed and make it able to pay its bills to us and others.

This is one of the big controversies in the Orient: is Taiwan still a developing country? I am sure many of you know that some of your commodities have been taken off the GSP list and more will be. This all has to do with the balance of payments and balance of trade that troubles the U.S. You must keep very aware of those balances with your trading partner. Every June we have nightmares about whether or not the Most Favored Nation status for Romania will be withdrawn. Certainly, Romania is an oppressive society. Last year and this year, there were people in Congress who postured a bit and made statements like "If they are going to burn our Bibles, we are not going to give them Most Favored Nation status." The speeches were made, cooler heads prevailed, and the status was renewed. Things can change by the stroke of a pen, if you are not alert to what is happening. In each of the last three years, we have testified in Congress as to the benefit to the U.S. of the trade figures and what was happening. We had visited Romania frequently and were asked by members of Congress, "How is the situation in Romania, and why should we keep Romania on MFN status?"

It is important that the trading partner or the private company here make itself known and felt in dealing with our government to help our legislatures make balanced decisions. These are all definitely parts of trading abroad.

We also get involved, strangely enough, in transactions between such disparate partners as the Peoples Republic of China and Romania. You would think, "Why do they need us?" But if you think we have trouble understanding each other, those people just can't understand each other at all, according to both parties. We are currently working on several transactions between them centered in Hong Kong. In talking to both parties, I don't believe they ever get together without some third party that can help them agree on many of the details we are talking about. We will probably run some of these things through our books or through a related company's books in order to get them moving. With the currency and the cultural differences they have, for them to get together on their own is much more difficult than to get together through a third party. We are worried, though, if these transactions are going to move for us.

We had one transaction that we had worked on two years ago and we had written it off. It was fairly good sized, but we had forgotten about it. We got a letter in the mail in German with a letter of credit, a purchase order, and everything totally in order and it said, "We insist on the price being maintained that you offered two years ago." Well, the price had gone down, but to accommodate them, being nice guys that we are, we went ahead with the transaction.

Things like that happen to you. I guess these are the guidelines I would leave you with: in dealing in countertrade with these nonmarket economies, use continued optimism tempered with a lot of fear and all the tools you have. It tests all the tools but it is certainly worth it. It is now bringing good business to our company and to our area. We have every reason to believe that it will continue and grow.

DISCUSSION

Question: How does a person become a part of it to get educated?

Calvin Van Pelt: First of all, evaluate yourself. What do you want to do? Do you have any particular merchandising skills or product skills? Are you looking to import or export? Evaluate yourself. Sit down and think about it. Start formulating your business plan in your head. Do you know anything about these countries? Who is the natural supplier of industrial diamonds that I want to import to sell to machine tool manufacturers here in the U.S.? That will give some logic to it. There is, for example, the Exporters' Encyclopedia, as I mentioned before. There is an amazing amount of information in that book. If you are looking for machine cutting tools, for example, Romania is one of the biggest suppliers. You can look in that book and it will show you the centrals, including the name and address of the company that manufactures that commodity. Contact them as a place to start.

Question: I am talking more about the nuts and bolts of the day-to-day activity. Could we seek a firm like yours with experience?

Calvin Van Pelt: I misunderstood your question. You can do that; however, I think most of the firms like ours are involved in their own trading. There might be agreements made like export management companies or something along those lines. Arrangements can be made. I don't know of many firms who are involved in this, other than just wishing to get involved in it. What we knew two years ago, we couldn't have made a living at.

It is not so much a learning process, because all the things are known. The documents of international trade are well known to all of you. You know how it works and what the shipping lines are, but it is the adaptation of those things to the realities of these market and nonmarket economies that is crucial. I would be glad to chat with you about them and perhaps point to some ways that might be of help. I make that offer to anyone who wants to chat about it. That would be the best way. Then, our conversation could be one on one, rather than trying to answer a big question like that in generalities. I think that everybody in your business will have some obvious places to start. Certainly considerable skill has developed in financial institutions here. I am amazed how much skill has developed in the overseas courier companies like DHL. At first, we had a lot of problems moving our documents and samples back and forth to Romania. Now it is no problem, but we grew together.

Question: Are there any peculiarities in the way IRS or U.S. Customs handles items produced in countertrade?

Calvin Van Pelt: Wouldn't you be surprised if I said no? Well, they start out with suspicion, as they should. The establishing of value is an extremely important thing, and extremely difficult. If your supplier can't tell what a product is worth, how can you? And then how do you figure in your markup? Yes, they are supercautious. We have found both of the agencies extremely cooperative.

When we have transactions which we are worried about, both from IRS and Customs, we sit down with them before we go ahead with the transaction. They have been extremely helpful. Use an abundance of caution with them. Take them into your confidence as you go along. They will not give you a binding decision, as you know, but they will guide you very well. You have an indication from them as to how the proposed deal will be evaluated, how it will be classified. We haven't had anything that backfired on us. There are peculiarities in so many of the countertrade deals that you have to talk to IRS and Customs about it.

Question: When you are exchanging goods, do you go on a straight product-for-product swap?

Calvin Van Pelt: We don't do any straight barter. I would discourage people from doing that. I would always get it denominated in some agreed upon currency someplace. If you don't, your reference points are lost. I know that there are people who barter. A hundred thousand pounds of ham or whatever it was for an airplane. They have done things like that. The first time I heard about this type of trade was from Boeing. They had tons of dishes from Yugoslavia and they contacted me from Seattle. I tried to help them, but they had so many that there was no way to help. I don't know what they finally did with all that stuff. They even opened up their own office. They brought some people from Yugoslavia over to the Seattle area to try and unload those things and turn them into cash. Someplace along the line I would denominate commodities. This goes for both sides of the transaction.

Question: In third-party transactions, do you insist on denominating the transaction?

Calvin Van Pelt: Certainly that is a very good place to denominate the transaction. We work on an agreed upon commission or markup or something of that nature. We always do it. The transaction has to be denominated. This time, the currency we are using is Hong Kong dollars.

Question: You were correct in mentioning, of course, that when Eastern Europeans come over here they really don't have our currency with which to travel. Don't you find that when you go over there they reciprocate by picking up the greater share of the expenses?

Calvin Van Pelt: Frankly, the prices are so low you can't tell. Certainly, they are wonderful hosts and I didn't mean to speak down to them. I just meant that is something you have to be prepared for. As we visit those countries they are very gracious hosts and it is most enjoyable. Be prepared to take your own soap and a few other things as you get out of the major cities.

Question: One other question with regard to joint venture. Do you find that this is a common way of approaching countertrade now?

Calvin Van Pelt: I understand that it is done on joint ventures. We have not used that method. We are operating as independent parties.

Question: You don't really have a group partnership with these people?

Calvin Van Pelt: We have had some discussions on that, but the ground rules are too vague, as is the applicable law. I suppose maybe someday we will get into a joint venture, but I would guess if we were to get into a joint venture with them it might be in an importing office in a third country or something of that nature. Maybe a joint operation to bring x into country y or to develop some type of system or manufacturing facility. I doubt that it would be in either one of the host countries. I doubt it, but I don't know. That is beyond our expertise.

Question: How does the Export Administration Act apply to countertrade?

Calvin Van Pelt: The same rules apply. For example, we are working closely with Tektronics on a project. We bought an oscilloscope in Germany to be used in research in Romania and we have not been able to get an export license for it. It is sitting in our office in Wiesbaden. We have to be extremely aware of these things.

One thing that I didn't touch. We quite often get approached by people who want to circumvent these rules. We don't get involved at all; we are supercautious about these things. For example, take this transaction with the Tektronics equipment that we purchased in Germany from Tektronics Germany. We are working very closely with the export licensing function in Portland, trying to get an export license. They are assisting us and helping us with an appeal. You must be very aware of this, and if staff in a second or third country are working for you, I think you would find out quickly that you are responsible for their actions in any attempt to circumvent these rules and regulations.

Question: You have been speaking about commodities that are pretty well fixed in terms of supply, more so than seafood or fish products, which are subject to great variations in abundance. What do you suggest in the way of dealing with commodities like that?

Calvin Van Pelt: I would have to understand your question much better before I could really comment on it. I know there is always a way to do something if there is a commodity and if it has to work, but I really wouldn't want to take a shot at it right now without understanding the question better. I would need more to comment.

## RECENT DEVELOPMENTS IN LEGISLATION AFFECTING INTERNATIONAL TRADE

**Carol Emory**

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I would like to give you a basic rundown of the U.S. laws which affect, if not necessarily facilitate, export of products and especially an aquatic product, hereafter referred to generally as fish. I moved to Oregon for the first time in October of last year. When I first went to Lewis and Clark Law School, I saw a sign for the Anadromous Fish Law Memo, which is a newsletter put out at the law school. I thought it was a joke. I've been in the newsletter business for seven years and I thought this was someone's great idea of a really arcane title for a newsletter. Now that I've been in Oregon for awhile, not only can I say "anadromous fish," but I can spell it. I think that is one of my better accomplishments here.

Some of my comments may be basic for you who have already been involved in exporting. But I would like to run through the basic and general U.S. legislation affecting exports, then move to recent legislation, and finally look specifically at legislation on exports of fisheries products.

I think you will need four things generally to profit in your fisheries exporting business. Simplistically, you are going to need markets, you are going to need orders, you are going to need price and quality competitive edges, and you are going to need fish.

In that order I would like to look at some of the legislation. The basic helpful legislation that might assist you in developing your markets is the Export Trading Company Act of 1982. This is implemented now, a little, by some of the banks that are forming trading companies, but it is a bit too soon to see if this is really going to achieve the purposes intended. The idea was to improve U.S. exports. In 1980 the Department of Commerce noted that only 10 percent of U.S. companies were exporting at all and 80 percent of those exports were handled by 1 percent of the 10 percent. We don't have an export mentality in this country and what we probably need if we are seriously going to boost the export of fish or anything else is a business plan for national industry. Everyone has business plans today. Start-up companies have business plans; law firms have business plans. Certainly the export industry in this country needs a business plan.

The Export Trading Company Act of 1982 was initially passed to help improve U.S. exports. The second purpose was to alleviate antitrust concerns that would prevent small, medium, or even larger companies from joining together in ventures that could render them competitive with foreign joint ventures. Prior to the Export Trading Company Act there would have been a concern that to join together for the purpose of exporting would run afoul of the Sherman Act on unfair trade practices. Under certain circumstances the Export Trading Company Act exempted exporters from the Sherman Act as long as they obtained a certificate of review from the Department of Commerce.

An initial wrinkle in the act was the requirement that your application to join together for this purpose be published in the Federal Register. Many companies were concerned about this because it would instantly alert their competition to what they were doing. Now the Department of Commerce has changed that regulation and only a brief summary of your market intention must be published in the public document. Still, your full application will be on file in the Offices of the International Trade Administration in Washington D.C. for any competitor who wanted to go in and read it. This may still have a chilling effect on some of the larger companies that don't wish to disclose early on to their competition what they are doing.

The third major helpful aspect of the Export Trading Company Act was to allow U.S. banks to participate, to a certain extent of their resources, as trading companies. Previously, banks were not allowed to be involved. It was considered an unreasonable commercial risk for banks to be involved as trading companies.

What this does for the small to medium size company is set up a network that it can plug into for technical and financial assistance and advice that would be extremely expensive to put together on your own. A competent, functioning U.S. bank that provides international financing services can have offices in Beijing, Tokyo, Singapore, and Seoul. They can know which brokers or potential purchasers in those countries are reliable purchasers and potential purchasers for your product. They can help you do market networking. They can check out the credit worthiness of your buyer and basically provide you a global footing if you are not ready to set that up on your own.

When the ETC Act was first passed, it was thought that American banks would rush to set these up. This didn't happen and a couple of the bank programs that have been set up have since folded. However, First Interstate (here in Portland) has a program under the ETC Act and is one of the banks that is active. U.S. National Bank has a program. Bank of America's program, from what I recently heard, has folded.

Another government program which would help you find your markets is a provision in the Small Business Administration Act which is set to expire at the end of this year. It provides funding for fisheries to go abroad to attend trade shows. It will fund four companies a year going over to trade shows and will pay your way. It is not known whether this program will be renewed or not into next year, but at this point that is also available to help you find some markets.

If you are making a list of the things you need to know about as you begin to export, don't forget the Export Administration Act. Many of us in the legal community here are getting to know more than we ever wanted to know about the Export Administration Act, largely because of its regulations concerning licensing of software and high technology. The three Oregon industries that seem to be big are timber, fish, and the "Silicon Rain Forest" out on the Beaverton Highway 26 corridor. We get involved extensively in export licensing. Fortunately for you, fish as yet hasn't been discovered to have a national security purpose, nor have the Russians or any unfriendly nation discovered a military purpose for fish. If this were the case, you would have more obstacles under the Export Administration Act. But it is my guess that the Department of Commerce won't pass any laws requiring you to do more paperwork, because fish spoil faster than Commerce can act. Therefore your fish are covered simply by a general destination license. You need to fill out on your form that the fish are not going to be diverted to a country other than that stated on the destination, called the GDEST license, general destination license, for fish shippers. At this point, fish are still under the general export license division of the Export Administration Act.

There is a another little finger of the act that you should be aware of, and that is the restrictive trade practices portion of the Export Administration Act. This is commonly called the Arab boycott or antiboycott laws. They are laws with respect to participation in unsanctioned international boycotts. Boycotts that we don't agree with, you can't participate in. Where this may come up and hit you if you are an exporter here is in shipping documents or letters of credit that are originating from countries which may be using financing from one of the Arab banks. Historically, this had been 11 to 14 Arab League countries, but we have now seen boycott language popping up in letters of credit out of Korea and out of Southeast Asia. Be aware that there are substantial criminal and civil penalties for complying with such requests.

You also have a reporting responsibility for each "boycotting" request received, whether or not you comply with it. You must report to Commerce that you received the request to begin with. If there is language in an attachment to your letter of credit that states that you will agree to give negative certificates of origin or that you will agree that your vessel will not stop at any Israeli ports, that's a no-no, and you are going to have to flag that and take appropriate action.

Another piece of U.S. legislation that you should bear in the back of your mind, because there are criminal penalties resulting in fines and imprisonment, is the Foreign Corrupt Practices Act of 1977. Amendments have been proposed each year by the Senate to the FCPA but they don't get past the House. The problem with the Foreign Corrupt Practices Act is that no one knows what it means. The way it is written, "intent" is not necessarily required and knowledge is not required; the act prevents your paying or giving directly or indirectly anything of value to a foreign official, a foreign political party, a candidate for political office in a foreign country, or any other person who might pass on the money or the item of value to such a foreign political candidate, official, etc.

You should be aware that there are Security and Exchange Commission regulations requiring careful and full reporting of any kind of payments or benefits passed on to an official in a foreign country that could arguably dispose him favorably to give you a contract or to influence anyone else to give you a contract. Until that law is clarified, you have to be very careful that you aren't making payments or allowing anyone else to make payments in your behalf. Again, the standard is knowing or having reason to know that this is being done.

The Export Administration Act with its licensing and boycott provisions and the Foreign Corrupt Practices Act with its rules against payments to foreign officials are basic and general U.S. legislation affecting exports. They have been around since 1969 and 1977.

In the area again of recent legislation adding to the Export Trading Company Act of 1982, we should mention the program that I think on a practical basis is maybe the most useful, at least based on what I've seen. The Foreign Assured Export Programs which have been set up underneath the Foreign Credit Insurance Association, which itself is underneath the Ex-M Bank, may be having the kind of trickle-down effect that is actually helpful. Here is how it would work: It's an umbrella policy which would secure the money owed to you by your foreign purchaser. You would set up an account with a local participating bank and that bank would prequalify the distributor in the foreign country for you, check out the credit rating, find out if this company has been in business for awhile, if they are reputable, if they are reliable. If that distributor qualifies, then the bank will post the receivable into your account at the time that the order is placed. You then have the value of the money to work with. The bank takes care of the collection problems. The practical effect of this is often useful in negotiation of a contract where it allows you not to have to insist upon a letter of credit, up front, in each transaction which otherwise would be the only way that you would be reasonably secured. You would want to have a letter of credit with no contingency other than a pure delivery of the fish of the quality specified and the type specified and then your payment would be triggered.

There is a limitation to participation in the foreign credit insurance program: you must be doing a certain volume of business before you will be eligible for the program. However, if you are qualified in this program then you can negotiate a contract that makes you appear generous. You can say, "Oh, I'll give you 30-day terms. I'll give you 60-day terms. Well, special for you today only, I'll give you 90-day terms." The colleague on the other side with whom you are negotiating may feel warm and friendly, since he is getting a special deal, not realizing that you are secured as long as the payment terms don't get stretched beyond what you have agreed to with the bank.

Another financing element which would help you get orders, if it applied to fish, which it doesn't yet, is the Commodity Credit Corporation special loans and funding. This was basically set up to provide loans on favorable terms to commodity (grains and agricultural products) producers in the U.S. for items of which there is a surplus. There was a proposal in 1983 for this to be extended to fisheries. That proposal died in Congress and has not yet been renewed to my knowledge. However, that is one possibility if there could be enough lobbying in Washington, D.C., to be persuasive.

Another recent legislative development that could help you develop markets and get a price edge would be the use of an FSC, a Foreign Sales Corporation. And those of you who haven't been familiar with FSCs and DISCs will not know that FSCs replaced DISCs. All the companies that ran out and formed DISCs, when that was the Domestic International Sales Corporation legislation, were given the option to convert them to FSCs.

DISCs were a congressionally created creature to allow, or try to allow, U.S. companies to be competitive by giving them deferred tax benefits for exports. What happened was that the member countries of the General Agreement on Tariffs and Trades, the GATT countries, protested that this was a form of U.S. Government subsidy of exports. We bought that argument, at least enough to change the legislation and come up then with FSCs which require that you must form a corporation offshore from the U.S. It must be a foreign corporation and you form a corporation under the laws of that nation. It can be set up in a foreign country or a U.S. possession such as Guam or the Virgin Islands. It cannot be set up in Puerto Rico. You must have one member on the Board of Directors who is a not a U.S. citizen.

After this legislation was passed, quite a few banks and accounting firms rushed into the act to provide management services contracts for your FSC. For example, in the Virgin Islands you can set up an FSC for roughly $950. The management fees range from $600 to $1,000 a year payable to a local bank or a local managing company, plus perhaps an hourly rate to them for handling your paper work. You feed all of your offshore transactions through that entity. You could then defer your earnings and get an exemption for your U.S. tax purposes or get favorable tax treatment on a certain percentage of your earnings.

Once you get the market developed and you get the orders and you have some kind of price edge, you still need to find the fish. The recent legislation would include, of course, the Pacific Salmon Treaty Act of January 1985. I have also heard this called the U.S. Canada Salmon Treaty. Basically this treaty provides much tighter U.S. management of the salmon resources. As I understand it, many of the salmon couldn't make it back to the river from which they came in order to spawn because they were being caught by Canadians. This was interfering with the U.S.'s ability to guarantee a number of the Indian tribes, such as the Yakima Indians, the requisite fish catch that is part of their U.S./Indian tribe treaty.

Perhaps under the new controls where the U.S. has closer involvement, it will be possible to generate enough successfully spawning salmon so that more can be caught by the Indians, we can fulfill the treaty, and there will be salmon left over. I think one of the more useful proposals which I was just talking about with Vern Chase of the Port of Valdez is a proposal to allow U.S. vessel-caught fish to be processed either on foreign vessels that are offshore in U.S. coastal waters or in foreign trade zones set up near fishing zones.

There is a bill in Congress, HR1218, which had been introduced to allow U.S. vessel-caught fish to be processed by foreign processing vessels offshore of Hawaii. From what I understand there was discussion of amending this bill to add Alaska. The political reality is that the existing bill may be allowed to die until a proper expert can be retained to do a full study. Then a new bill would be proposed that would bring in not just Hawaii but Alaska and the West Coast states as well as some of the New England states. It would allow special foreign trade zone processing for fish that would then be turned around and exported.

These are the basic items of legislation that are on the table now which would affect your financing, your ability to discover markets, your ability to find fish and maintain the volume of fish. I think that one of the main problems is keeping a competitive edge as well as getting on a plane when you need to yourself and finding and developing your own markets in a creative way. While the banks may jump in and set up a network that can feed information back to you, there isn't any substitute for going there yourself and determining how you are going to find a market niche and fill it.

## PANEL: KEEPING A PERSPECTIVE ON NONFINANCIAL FACTORS INFLUENCING COUNTERTRADE AND EXPORTS

### CULTURAL ASPECTS OF COUNTERTRADE

**Tony Burget**

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Probably most of you looked at the schedule and said, "What does culture have to do with fish?" None of you has seen fish at the local museum or the Ueno Museum in Japan, and you get very few fish when you are out being cultural. You may think the most important part of dealing with fish is what to sell, how to sell it, where to sell it, and why you should sell it. But actually the base of selling gets heavily into the culture of the country that you are going to sell to or you want to sell to.

An example of a great contrast is in a dictionary. In Japanese what does the word "sayonara" mean? People would say that "sayonara" is the word for good-bye. But when you are president of a company and you are leaving your company and your employees all happen to be coming in the door and you meet for the first time that day, they say "sayonara." In English we'd say "hello." They are opposite words with opposite meanings and a very small example of how different cultures can be. You can imagine that if something like these small words "hello" and "good-bye" are different, what a great cultural gap there is when you sit down to write a contract or try to do business.

Americans are made up of many cultures. Unfortunately we abandon our cultures rapidly are probably some of the most ethnocentric people in the world. We tend to close our eyes to other cultures, believing everybody should do it our way. I think the auto industry is still trying to sell left-hand-drive cars around the world. You can see that the Japanese adapted a little more and have done a lot better in their automotive industry.

Our universities offer a lot of languages and other courses to get us acclimated to working and doing business abroad. Unfortunately, we offer very little in the way of programs in a subject which I used to teach at Columbia called "language/culture." Culture is very important, even in language. Americans take rush courses to try to learn Chinese, Japanese, Korean, or French. They never learn the culture behind it. One example that is often used is a man that the State Department trained in Hindi to go over to India. He became quite fluent in the language and was sent over as a counsel in that area. He met the head delegate for the Province and stuck out the wrong hand, which is the toilet hand, to shake hands with him. The Indians immediately asked that he be returned to the United States. He had learned a lot of language, but he had never learned anything about the culture.

Similar things may happen, like slapping someone on the back, which is a great friendly thing in America. It is not so often acceptable in many other foreign countries. One of my first trips when I worked at the New England Fish Company was to Korea with my boss. He happened to be the son of the managing director of the company and was not as smart as he should have been in such a high position. It was his first time abroad. He was young and single and thought he was a ladies' man. We were picked up by the Minister of Fisheries in Korea. My boss got in the car first and sat beside the Minister of Fisheries (who was about 60 years old, an elegant Korean high official). We had been riding about five minutes when all of a sudden my boss says, "Get your #&!@ hand off me!" In Korea, when someone wants to be quite friendly and talk to you in confidence he puts his hand on the inner thigh. The Korean Minister of Fisheries had put his hand on my boss's inner thigh, and I think my boss thought it meant something else.

Another story was recently in the paper in Thailand. A group of Senators from the U.S. went over in regard to the textile protectionist bill that is up before Congress now. There was a picture in a Thai paper (but not in the English papers) about what an insult these men were. There were the three men sitting at the meeting with their counterparts in Thailand with their legs crossed and the soles of their feet were almost all pointing up in the air toward the other people. This is one of the biggest insults you can give anyone in Thailand. They had gone over there to try to help and repair some damages in our diplomacy but ended up insulting the Thai people they were dealing with.

Probably one of the first cultural aspects to consider is the product you are going to sell to a foreign country. Unfortunately, all products don't fit in all places. I remember a time when I was in China and someone asked me if I liked dogs and I said yes and we ended up having that for lunch. You have to be very careful; people eat different things and in different ways.

For example, last year we did a show in Saudi Arabia. I knew from the Saudi culture that they don't like red-fleshed fish. So we brought over our white king chinook. In the promotion we said these kings were specially bred with white meat to suit the Saudi taste. We sold all of our white kings. Sometimes you can use something you have to fit into another culture.

We sell red-meat salmon to northern Europe and Japan, pink salmon to Italy and France, and, as I said, white salmon to Saudi Arabia. By knowing the people, the way they eat and how they eat, you can pick out what species or what products you want to send to different places. Use the industries of other nations as well. England, The Netherlands, and Denmark are all very good at making patés. When we have leftover lower-grade salmon, we sell it to them because they are going to mash it up anyway. It doesn't really matter about the skin color or the water marks, all the things the Japanese look for. (The Japanese sell it to them also.)

Until about 20 years ago, I think you all know we threw away the roe from salmon. Now it is probably the most valuable product that comes out of Alaska, besides the herring roe. We threw it away. We threw away roe herring. People threw away body meat. Today we still throw away stomachs and heads and eyes and lips and a lot of things that are valuable products in different countries. This is mainly because we don't know what to do with them or we don't know how to sell them. Even many people who try to do it, don't really learn how to do it right. They think, "Well, if the Chinese eat stomachs, I am going to pull the stomachs out of any fish that is around and freeze them and send them over. Unfortunately, there is a restriction as to which type of stomach they like.

I think Americans have always done what they wanted to do. We do it our way. Why should I do black cod, Japan cut? I've done it the American way since I started and it has always sold so I am going to do it the same way now. I am not going to haul the salt for salmon roe up to Alaska; I'll just put it in buckets and send it out that way.

We always make things the way we want to make it. Therefore, we've become less and less of a leader in marketing. I think a good example is the British Empire. You all know from your history that Britain was the great economic leader around the world a century ago. One of my first jobs in business was working for what used to be called the Hong Kong Shanghai High Trading Company. It is now called Dodwell. It was the first foreign trading company allowed into Japan and it's been there since the Meiji Era. I had just started to work for the company and was the first expatriate hired in Japan. I thought it was probably because I spoke Japanese and they didn't have any of their expatriate staff that could speak the language. The president of the Japanese corporation was an Englishman who had been born in Japan and whose father had been the president. He had lived there all his life, about 60 years. He spoke English with a mumbled British accent. A secretary came in and said something to him in English. He answered and she said, "Pardon me" about three times. She just couldn't understand what he said so I was showing off a little and I turned around and translated. When she left, he got up and went over and shut the door and he said, "Mr. Burget, we understand you speak the vernacular, but don't lower yourself to these people. If they can't speak English, they bloody well better get out."

Dodwell has gone from being one of the leading trading companies in Japan to a representative office in their Hong Kong division. They have lost such major accounts as Lux Soap, Black and White whiskey, and the German wine industry. Tremendous accounts. Mainly because they did it their way for so long. Finally the market that was the expatriate market many years ago stopped being for the expatriate when the local people could actually spend more money and buy more products than the expatriates. But they kept going the British way. They lost their lead in the market. I think it should be a good example for Americans who try to sell our products our way abroad. You can't do it that way. You have to study the culture, the needs of the people, and what the people want.

There are a number of food shows you can go to that are sponsored by the Department of Agriculture. In Washington State we have the Washington State International Trade Fair. You can get government help or a subsidy to take you to these shows. But at some of the shows the American stands are almost like a circus because the American marketers are so uninformed and so unknowledgeable about the local business when they get over there they make fools of themselves. The Denmark pavilion, which is twice as big as the U.S. pavilion, has everything fixed up perfectly. They have their foreign language handouts; they have translators who can translate about the product. It is totally different from ours.

Two years ago in Japan, the second largest food show in the world, I was helping some of the people get set up. One man was really upset because he couldn't get his samples into the country. He had been out to the airport five times and he couldn't sell anything if he didn't have samples. I said, "What are your samples?" He said, "It is a lot of pollock." I said, "Pollock can't be imported into Japan." "Well, no one told me that."

Actually, the American Embassy had imported the stuff and brought it over for him. He had received all this help and no one had bothered to tell him that they couldn't import pollock.

Another man had his wife and two daughters dressed up in their cowboy suits. He was going to market to the Japanese by bringing his whole family there. As you probably know, the Japanese don't mix families with business very much. It made him look very foolish, very strange, or probably too poor to afford help in his business.

Another man was selling new chipped and reformed beef steaks. He was really proud of his chipped and reformed beef. This was the greatest thing that had ever happened. It was just like a steak. It was probably middle priced between steak and hamburger and that was all he talked about to the other Americans that were visiting. He hired a translator who knew nothing about the product. She was standing in front of his booth. I asked him if he knew what she was saying. I told him, "She is using the word for hamburger. She is pushing it as a hamburger at $2.20 a pound." For three days she had been pushing it as hamburger. Even when we go to these great food shows and try to get through to the people, if the Americans don't know what they are doing, we aren't going to do a good job of selling.

Second, we have got to package a product that is acceptable to the country we are in. A Philippine fruit grower had started doing his own direct marketing in Japan. The man was about 50 or 60 years old. He had lived through the occupation (during World War II) and knew just a little bit of Japanese. Enough to be harmful. One of the worst things to do is to know a little bit of a language and then try to do business. He knew a little Japanese and was fixing up this beautiful packaging that fit in the Philippine market very well. He was using oranges, purples, and greens all mixed up on the boxes and then in big letters he wanted the message that his mangoes were absolutely the best, the top of the grade. The Japanese should know that. He was going to write a little bit in Japanese. He used the long o before the word mango. That word in Japanese means something completely differently. It is the word for the female erogenous zone.

Another example was in the Saudi show two years ago. A man was going to sell rice there, and it's a good market for rice. He had been told one of the failures that people have in shows is that they get over to the shows and they don't really have the product ready to be sold, ready to ship. Therefore, by the time they get their product ready to ship they have lost the sale and they've wasted the trip. He had prepared many tons of rice for shipment in Arabic language bags. He had the weight in grams, the expiration dates on them, and four of the bags in front of his stand to show everyone. An Arab employee from the American Embassy came by and said, "Maybe Americans like jokes, but this is not a good joke in Saudi Arabia." The man said, "What are you talking about?" He pointed out a little mistake on one of the curves in the lettering. It had changed it from saying "Louisiana rice" to "death rice." He had tons of it sitting back home with "death rice" written on the bags.

Weights, expiration date, and what is culturally and legally acceptable in the country are necessary to know for packaging. Know what colors customers want. Red packaging goes fabulously in China but is not at all acceptable for food in Japan. Different colors have good and bad meanings for people. Also different signs and different characters. We have to be very careful and actually know, not just guess. It's important to be very careful about who translates for your product. You are much better off using a professional firm in New York or in the country you are interested in marketing in.

Contracting is also a cultural aspect. In contracting we have to spend a lot of time being heavily involved in the culture. Another story back in the days of Dodwell: We had a gentleman come in with Baby Champs, which is a kind of peach champagne which makes you sick fast. It is a horrible product, but he decided that he was going to market it in Japan. His firm was a very good customer of Dodwell in England so he was sent over to my office without an appointment. It was my staff meeting day, so I said I would be happy to talk to him after my staff meeting. He said he would wait, so he went off into our conference room, where he was given tea. Our meeting lasted for two hours. I forgot that he was waiting, so I went back to my office. He came in and was very upset because I had kept him waiting for two and half hours. But several years later, he saw me at a party and came up to me and said, "You are such a wonderful man. We have been doing very well in Japan and the main reason is the first lesson you gave me." I wanted to know what it was and he said, "You taught me the most important thing in Japan--to sit and sip tea for two and half hours without doing anything."

Last year at the show in Saudi there was a man screaming in the customs area. He had bought four bottles of $150 cognac as a gift to some people he was going to visit. As many of you may know, in Saudi Arabia, the Saudis don't drink and you can't import liquor. I think there is a death penalty if you have it. He had his gift and he was going to bring it in no matter what.

Advertising is important. How you approach your product or how the organizations you belong to approach advertising is very important. It is doubtful that an American company without foreign experience could give you the cultural background you need for advertising. In Japan, the advertiser has to be terribly egocentric. In America it seems a bit offensive. Everything is "my car," "my house," everything is for "me." Even the father with all the kids will say "my car." In America it might be, "I've got a safe car for my family." We advertise in a different aspect because it is not really considered good to be egocentric. The advertising has to be put into a local concept or local idea of what is interesting to the people. Don't think that you can get on a plane and go over there and sell something simply because you are a good guy. It takes a lot of study and a lot of research or you must find someone else who can help you with the problems of culture in business.

## NATURAL RESOURCE CONSIDERATIONS

### Kirk Beiningen

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I was asked to provide you with a little insight into marketing impacts on the resource upon which you depend for your fish and seafood products. I will use Oregon as an example, which is neither good or bad, but it is typical of what we are dealing with.

Oregon's fishing and seafood industries do not occupy a very significant position in the array of commodities produced in this state. The appropriate role that such products should have in the state's overall economy is not very well defined and is even less well understood. On a global scale the products produced by Oregon's fishing industry are not very impressive in either quantity or value. However, Oregon's image is greatly enhanced just by the existence of these resources.

The worldwide demand for sustainable supplies of fish products and protein provides us with an opportunity for developing and promoting Oregon's products. The state has not generally experienced much success for its products beyond the extent of the traditional fisheries and their historic markets. Some stocks of fish available from Oregon remain unused, are harvested below optimal yield levels, or as yet have failed to achieve satisfactory returns under the present definitions of the highest and best use.

Oregon's fish resources are of interest not only to the Department of Fish and Wildlife but also to a number of governmental agencies, a wide variety of business interests, and many sectors of the public. Within that matrix, my agency has implemented fairly narrow interpretations of its enabling statues. We have generally confined our actions and management to two areas: (1) the resource as it is found in the environment and (2) the removal of portions of that resource from the environment. The agency is not prohibited from involvement with the post harvesting activities, but our statutes and our policies in this regard lack specificity.

When a fish is caught it is reduced to possession from a common property status. The chain of events from the point of harvest to consumption is very complex. Many of the activities that follow the initial landing have some relationship and often significant effects on the fisherman who caught the fish.

It is worth mentioning at this point that noncommercial uses of fish resources (i.e., recreational, personal, subsistence, and nonconsumptive) are also the sources of social, political, economic, and biological implications when it comes to making management decisions. Commercial fishermen have historically had little influence on any of the postharvesting activities on the fish that they have found, caught, and sold. The reverse situation has usually prevailed. The kinds and amounts of fish they catch and the prices paid for them are often driven by market forces far removed from the fishery. The market place for fish extends from the point of landing to all parts of the world. The same analogy can be applied to noncommercial uses of fish resources and to the nonconsumptive forms of resource use. Whatever the resulting actions, the fisheries themselves are the source of immediate concern in trying to balance the equation of supply and demand.

I should mention some of the concerns regarding the allocation of resources according to demands. As an arm of the state government, the department is required to manage the resources so that we can achieve optimum benefits for present and future generations. That is the legal language. Among the choices for attaining the highest and best use, is the international market an appropriate goal? Does the resource agency have a role in defining this goal? This is one of the demands for fish that is least understood by my department and with which we have had least involvement up to this point. The agency has the ability to specify goals and objectives for fisheries development. It has set several goals with respect to certain commercial, recreational, and aesthetic benefits accruing to sectors of the public, but even these are limited in scope. Lacking definition within the agency, fisheries development per se has usually been associated with immediate responses to momentary needs of the various users.

The influence of politics has been strong in studying many of these user-generated objectives. As a result, management decisions have been more often reactive than visionary. It is a curious anomaly that many of these same political influences could be equally effective and stimulating as initiatives for fisheries development.

The resource agency is caught in a dilemma that hampers the kind of creative development available to other agencies. By managing a common property resource, the agency is constrained to respond to all sources of public opinion. For better or worse, public opinion reflects conflicting values.

What do we mean by values? How do we approach the process of quantifying the value of the fish resources in the state? How do we extract some measure of return from these values? The state's management agency is obligated, but we are not very well equipped with either policy or guidelines, to keep pace with rapidly changing decisions that generate such questions.

In the broadest possible context, the state's fish resources offer something for everyone. We are limited only by the conservation laws and regulations and by our imagination. The history of usage, however, is not very imaginative. Fisheries for select species like salmon, trout, crab, shrimp, ling cod, and bass reflect narrow expressions of our societal values, established by preference over time. Scant attention is paid to some of the less popular species like rat fish, lamprey, dogfish shark, and squaw fish because they lack comparable commercial, recreational, or aesthetic value. The research management policies are in large part reflections of those societal values. However, the policies do not recognize and they certainly do not address the tremendous potential for development. The state, by confining its promotion of this resource to present commercial or recreational opportunities, may be remiss in its responsibility.

When fish are reduced to possession by the public domain, they can be assigned a value. The translation is by no means simple. Factors beyond the familiar economic terms may be employed in defining resource values. Once caught, the fish can be assigned differing economic values based on its relative worth. The economic multipliers can elevate the relative cash value of that catch to much higher amounts. Economic analysis dealing with the effects should be considered for commercial, as well as recreational, fishery impacts.

As one example, there are impacts beyond the ex-vessel price paid to fishermen for that fish. Look at the support industries and the communities in which the fish are caught and landed. Even if a fish is not caught, it can still be assigned a value. That can be for either conservation or aesthetic purposes. The fish would be of equivalent monetary value to the management agency for the benefits derived if it escapes capture, spawns, and maintains or enhances the resource base. Its value could exceed its value in any other capacity, depending upon what measuring stick you are using. A broader societal value can be derived from the knowledge that the environmental conditions permit that fish to exist at all.

An analysis can be made for each fish species indigenous to Oregon or available for catch by its citizens. The numbers will range widely. High values are associated with popular species like salmon. Values are much lower for species like bottom fish, smelt, or tuna. Some species such as dogfish shark, shortbelly rockfish, and carp, have virtually no value at this time.

Let's take a look at some fish markets that are near and far. The marketing of fish products of all kinds is generally dominated by forces far outside of the immediate area where the fish are caught. Prices drive the entire system. The prices are often less stable than those for other commodities and probably fluctuate as much as the currency market. Very little happens with fish products even at the local level that is not influenced in some way by international forces. Because of their dependence on fish as a primary source of protein, the Asian nations lead the world in harvest, sales, consumption, and competition. One immediate impact of this dominance is the lesser capacity of the rest of the world to compete advantageously against such countries as Japan, South Korea, and Taiwan.

However, I think it is worth noting that these countries are not without some constraints with regard to markets and access to desirable supplies of fish products. Passage by this country in 1976 of the Magnuson Fishery Conservation and Management Act has provided us with an effective counterforce to external pressures on our fisheries. By now, nearly every maritime nation has established a similar fishery zone off its shores. Most of the world's edible and nonedible fish products are caught in these zones. Some are very high volume, low unit value species. Examples are Argentine hake, Alaskan pollock, Atlantic menhaden, and Pacific whiting, while others are the more familiar low volume, high unit value species such as gulf shrimp, Pacific and Atlantic salmon, and lobster. The commerce generated by this mix of species affects every facet of this nation's fishing and seafood industries.

On a local level, these industries in Oregon have not fared well. Today's operations bear a scant resemblance to those once found in nearly every coastal community. In most cases declines in either supply or demand have substantially reduced or drastically altered these activities coastwide. Efforts to resuscitate some of these local industries have been marginally successful at best.

What are some opportunities for fisheries development? Forces often far removed from the resource itself shape the demands for it. In our developed society, these same forces have come to be motivated less by personal use than by the economic incentives driven by recreational and commercial needs that are either real or perceived. Look at salmon as an example: the overall economic benefit to Oregon from the ocean fisheries for this species now comes more from its recreational use than from its commercial harvest value. Only a few years ago the comparison was just the opposite.

I must caution that it is not an either/or situation. Commercial and recreational fisheries can coexist. Most commercial fishing effort occurs in response to market demands regardless of the species. In instances of the primary producer (i.e., the fishing industry) stimulating markets are quite rare. It would be unfair to fault fishermen entirely for this situation, however. By the nature of their industry, they have been ill equipped to instigate market incentives in the past. In more current times that may no longer be true.

Let's take a look at some foreign involvement in local fisheries development again on a scale that I am most familiar with in Oregon. I believe if local preference prevailed, Oregon's fishing and seafood industries would probably not choose to have foreign involvement in their operations. Fishermen, because of their independent origins, prefer doing business their own way. I believe that in recent years it has served to their disadvantage. Many fish product businesses that have been strapped for operating capital have had to resort to outside financial backing. Some that have been faced with severe reductions or unstable supplies of traditional species, high labor costs, and the competition from cheaper products, are no longer in existence.

One impact has been obvious. Protein-hungry nations covet the fish supplies that are available from this country's waters but are not willing or able to pay our higher costs of producing them. In rapid order many of these same nations have sought and gained access afforded under the strict terms of the Magnuson Act. Apart from the provisions of that act, many of these same foreign interests have also succeeded in investing in domestic fish-related industries.

American operators have sought to achieve gains in the national interest either because of, or in spite of, foreign involvement. The results have been quite varied, with domestic fishermen still wondering about their own future. If one were to wager on the growth prospects for Oregon's fishing and seafood industries, the odds for success would vary proportionately with the degree of involvement by foreign interests.

The resource base is capable of sustaining much more with regard to the kinds and amounts of use than it now is receiving. This is true not only with the commercial fisheries, but as I mentioned before, with the recreational and nonconsumptive uses of these same fish resources.

In terms of statewide economic development, every possible resource needs to be incorporated into a comprehensive approach to new growth, to look at untapped, but exploitable, opportunities needing stimulation. Even our tourism industry can benefit from access to fish and wildlife recreation opportunities associated with such places as destination resorts. Such opportunities can appeal to the domestic and foreign visitors to our state. If Alaska exhibits as many tourist signs in Japanese as in English, so can Oregon. The entries in the guest book at the Bonneville Dam fish ladder show there is some significant potential for expanding these kinds of opportunities.

Our coastal communities in Oregon are still attempting to stabilize their own economies. The efforts of the past were largely isolated geographically. They sought to rectify some immediate problems and they often achieved minimal success. Broad economic reversals, state and nationwide, were magnified at the local level along our coast. Our dependence on narrowly defined industries has resulted in economic and social dislocation of high proportions. Any success in reversing these trends in terms of our fisheries resources will continue to be difficult.

New international trade opportunities are a viable option. We must become competent at negotiating and promoting international trade relations to Oregon's advantage. As one part of that process, my agency has an obligation to declare an agency policy with respect to fisheries development. We need to set some specific objectives for enabling the state to achieve greater benefits from these same resources.

DISCUSSION

Question: You talked about the ODFW's responsibility for assisting in development. However, it seems that its basic responsibility is the knowledge and maintenance of stocks. Many of the stocks that are suggested to be available for development as exports are ones with low density or low value to us. These are the same stocks on which we have very little information, for those very reasons. What do you think of our capacity to manage stocks, given the increase in forage rates?

Kirk Beiningen: That is a tough question to repeat for the benefit of the tape. If I can paraphrase your question: How do we know what we are dealing with and how do we make determinations on how much of the biomass, the fish stocks that are out there, we can afford to have harvested, over either a given area or a given period of time? What yardstick do we use? I'll candidly say that is one of our short suits. We have concentrated most of our energy, money, time, and people on the species that have been the most popular and in the highest demand. It's an irony that in order to allow development of some of these other underutilized species, we have been flying blind, hoping we're not going to erode too much of the basic supply of the lesser-known species as we monitor the production fisheries. We must obtain the data base needed to measure the stocks to know what the recruitment levels are (how many young fish are coming into the fishable-sized stocks on a yearly basis). It is tough, but I think under the Magnuson Act we have gotten some help in getting the tools we need in order to get the data we need. It's happening, but it's not happening as fast as any of us would like. We have to deal with finite numbers that are produced by a very imprecise science. It's so fluctuating and variable because of the biological dynamics; it is tough to get a handle on. We're forced to put finite numbers on these criteria for harvest levels. That involves some risk. We have to make our best estimate in order to get the job done.

Comment: I guess as a follow-up or restatement, I am specifically wondering about the pushing of underutilized species for trade. How do the bankers who have to consider the risks know they are going to be assured the venture is not going to be just another series of little booms and busts, particularly when you are working with underutilized species?

Kirk Beiningen: Good point. One thing to our advantage off Oregon is that the Soviets, for better or worse, have a five- year plan that is continuing. They are not going to turn it around until it is completed.

The five-year plan is to do egg and larva surveys as well as year class studies to assess the young stocks of Pacific whiting and other species they are interested in.

Over the last 15 years that has given us a fairly good scientific basis for making estimates on the biomass of Pacific whiting. We are not doing as well on some other bottom fish stocks. There are so many species out there it is difficult to even keep track of them as they rise and fall on the commodities "hit parade." Who would want to eat an idiot rockfish? It is being marketed now as "ocean catfish." You see, there is more than one way to skin a fish. It is a very complex situation and I would encourage you to consider believing we are trying to do the best job possible. It is really playing catch-up ball for us as we go along. The question you asked me is one I wanted to ask Cal Van Pelt. How do you conduct your business when you are dealing with a fluctuating biological critter that doesn't follow the rules of finance?

Question: Fair labor or unfair labor, there seem to be quite a large number of people who sense that ODFW is less than supportive of private efforts to put more salmon and salmonids in the water. I run across people who feel that way very frequently. What, in fact, is the department's policy toward these hatcheries and why are people running around saying that the department is discouraging this kind of activity?

Kirk Beiningen: The question you have asked regards the department's policy on such activities as private hatcheries, specifically, salmon hatcheries. I am going to dodge part of your question because some of that discussion is still going on. We are trying to resolve or update our policies in that area as a result of actions taken during this last legislative session. It would be a little premature for me to say something that is not yet complete. I think that we have a romance in this state for those fish with an adipose fin: salmon, trout, steelhead, etc. These species have dominated the scene in fish and wildlife management for a long time. They are considered the property of the public. How do you superimpose a so-called private commodity such as ranch-reared salmon onto the public domain because those fish in Oregon are released after they have begun to grow under private ownership?

Other states do not operate the same way. There are a lot of different philosophies and approaches to these different concepts and it is not clear in anybody's mind which is the best way to go. It is cause for a lot of concern, conflict, and emotion. It all stems from the feeling we have in Oregon that these natural resources belong to everyone. That's the feeling, without going into legal or philosophical aspects.

Question: I would like to ask Tony Burget what he thinks of the People's Republic of China and the reference Kirk made to using all parts of processed fish and marketing them worldwide. My understanding is that the Chinese would like to be a net export country and that most of us don't have much of a chance for marketing our fish in that country. How do you see it in the long run?

**Tony Burget**: He has asked about the import and export into the People's Republic of China of fisheries products. I think the Chinese do have a national policy, at least it was expressed to us very strongly the several times I've been there, not to import fish for consumption. I think they do see a great market in bringing fish into their tax free zones for reprocessing. We have been exploring that. Moti Beni for three years has been bringing roe herring into Del Yen. The Del Yen has just been revamped and taken over by a conglomerate of Hong Kong and American interests. Chin Dow is also expanding their operations to include reprocessing of fish, particularly shellfish. I think the best market for us in our industry today in China is in seedlings, feed, and especially processing equipment and vessels. We have done quite a bit of bartering with China. In fact, two of my people are going over in October for five weeks. We bought 600 tons of shrimp from Tsien Dau and all of this was done on a barter arrangement.

## CURRENT CONSIDERATIONS IN TRANSPORTING EXPORT COMMODITIES

### Frank Dausz

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In talking about the current state of transportation, I hope to touch on its implications for those of you who ship fish products. I like to break transportation into four categories: (1) the current level of transportation technology, (2) the equipment and the service that are available, (3) transportation organization and regulation, and (4) today's climate. I'll include a little bit about what is happening with computer processing of trade and transportation information. This is on the verge of becoming something big. I'll also offer some information for those of you who are attempting to sell aquatic products overseas.

You need to understand that in the area of ocean transportation, there is a progressive history of technological development. Very briefly, for those of you who peer out at the Columbia/Willamette Rivers and see big boats going by with little boxes, those are the container ships. For all practical purposes, general cargo currently moves on container ships worldwide.

It didn't use to be so. If you watched Humphrey Bogart movies, boats had gear and hatches and longshoremen running around. Those were the old things that happened years ago. Starting somewhere in the middle of the fifties, a couple of bright people from the community of SEALAND, SEATRAIN, and Matson came together. They invented a wonderful thing called the container or box. The motivation was to reduce handling and labor costs. SEATRAIN's motivation was to be able to take a truck trailer and figure out how to get it on board a ship to Puerto Rico with as little rehandling as possible.

Probably one of the major pioneers of the container, as we know it today, was with Matson in the Hawaiian trade. Matson came up with this marvelous thing called "the box" in which either the shipper or the longshoreman loaded the product and then loaded the box on board. The motivation here, again, was to reduce labor costs and to make things a little bit more efficient. As the Hawaiian trades and the Puerto Rican trades actually established this kind of a technology, probably about the early sixties, everyone else saw the potential. The Japanese and European steamship owners saw this as a way of becoming more efficient. By the end of the sixties, a lot of the major trade lanes of the world were using this type of technology. They put things into containers or square little boxes that fit very nicely on specially designed container ships. This way they avoided many of the problems involved in loading and discharging a ship. Labor, as well as damage, was reduced.

Simultaneously, the sixties saw the development of the Ro-Ro (Roll on-Roll off) and LASH. Ro-Ro is simply a kind of ship whose stern plops down to make it a floating warehouse. You drive things on and off. Again this was an innovation in the technology of moving cargo.

About the same time, we also had the development of the LASH concept, which is Lighter Aboard Ships, or barges that are loaded on board ships then dropped off at strategic places.

Out of this turmoil, I think the real survivor will be the container ship. I think Ro-Ro has a very limited application for certain parts of the world; so does LASH. LASH is primarily used in those trade areas where you have a lot of river traffic, like the Mississippi or the Rhine. You can take a mother ship, drop off a barge, and go your merry way. Eventually the barge finds itself going up the river.

At present, the container ship is being highly refined. To put this in perspective, you have to remember what SEATRAIN tried to do. It tried to move a 40-foot truck-trailer and also make it into a shipping container. The whole idea of "intermodalism" or "land bridge type cargo" grew up with containers. There are wonderful little terms we bandy about in the trade such as "land bridge," "mini land bridge," "micro bridge," "inland point rates," etc. They all really speak to the fact that international transportation (anything that goes across the ocean) is now intermodal. In other words, it moves by truck, rail, ship, plane, or whatever else you can use on the other side. An ocean carrier, for example, will issue a bill of lading, Chicago to Calcutta, or Pasco to Paris, and will undertake the entire transportation route on a single transportation document (i.e., an intermodal move).

That is a great improvement if you think back to some of the old movies which showed the methods in use then. You would have seen longshoremen handling crates, boxes, and barrels, up on a sling, down into a hatch, and people inside the hatch stowing things away. If you had things like frozen fish, and it was coffee break time, the stuff would start thawing. A lot of problems with the old type of technology were beautifully resolved with containers. The whole idea of intermodalism is a by-product, an outgrowth, of this new technology called containerization.

Along with intermodalism we have a concept called load centering. As the ships became larger and more expensive, ocean carriers tried to rationalize services. This is why you see a big battle for who is going to load center where and who is going to capture which service. The Port of Portland is actively trying to keep its toe in the door, vis-a-vis our big brother in the Seattle area. The large ships tend to now congregate in the major ports and then feed in and out from there.

The 1980s produced not only the hybrid of the container ship but the big mega container ships as well. U.S. Lines has built the 4,000 twenty-foot equivalent unit vessel (TEU). It has the capability of loading 4,000 twenty-foot containers or their equivalent. Obviously it's going to generate a great amount of efficiency for that carrier, if it even half fills the ship. Allegedly, the company is going to make money. It is quite an innovation.

With these larger ships, load centering, mini land bridge, and intermodal kinds of moves, you are seeing the development of moving containers in unit trains and double stack trains. This is being done by companies like American President Line. Another way of cutting cost is to take two 40-foot containers and stack them on top of each other in special cars and again gain an enormous amount of efficiency. Companies can move cargo from Tokyo to Chicago or Seattle in very few days at fairly low costs. The standard sizes which have been developed pretty much worldwide are 20-foot containers and 40-foot containers. Within those containers is the "standard dry." Basically, it is the box with a door on one side. There are also the refrigerated (reefer) type of container, the flat racks which have two ends but no sides or top, and platforms, which are exactly that (a steel pallet in the configuration of 20- or 40-foot containers). There are a lot of hybrids on this kind of technology but for your purposes, probably the 20- or 40-foot dry container or the reefer container is of most interest.

The experience with these containers has always been very, very good. When you have a source-loaded container of fish from a processor, you avoid double handling. If you are a processor, you load the fish and you know what you put in the container. It will be refrigerated and monitored. Once the door is sealed, that is the way it is going to arrive at the door of your buyer or the receiver of that carton.

Ocean transportation today is dependable, reliable, regular, and frequent. This allows a lot of things to happen in the trade. The buzzword now is "just in time," meaning that you can actually fairly carefully prepare shipments and not inventory them. They arrive in time for production, sale, or dinner. This reliability changes the whole idea of having a lot of warehousing inventory.

On the air freight side, in terms of equipment and technology, air cargo back in the sixties was kind of a hit or miss thing. It was primarily used when machinery broke down, or the Shah wanted caviar for dinner. It wasn't set out to be a movement of cargo on a regular basis. With the 747 and the DC10 wide-bodied aircraft, all of a sudden, there was a large amount of space. Also in the seventies came the development of the high technology instrumentation, which comes in a little box. This was very high value cargo, and there was (and still is) a lot of it. It is very expensive; thus, it can afford the higher freight cost of air transport.

So air freight came into its own in the seventies. Our particular company started air freight about 1969. That is about the time a lot of people started in the air freight forwarding business and cargo started to move in some volume.

The problem in the seventies that helped air freight develop was the inflation rate and the oil money that was bandied about. A lot of expensive automobiles were being shipped overseas. The inflation spiral, especially toward the end of the seventies, was horrible. Those days are gone.

Out of this new way of moving cargo (i.e, by air), new kinds of services developed alongside of the airplanes and the carriers. The ascendancy of air freight consolidators came out of that era. People took advantage of buying space wholesale from an airline and retailing it out, consolidating your parcel and theirs into one. They came up with the idea of "door to door." The consolidators, more often than not, would offer this service. That means they would pick the freight up at your door and carry it all the way through to the destination point. Again, this was another of the improvements in service that came out of the seventies.

Like ocean transportation, airplanes had this economic necessity of consolidating landings. The idea of a gateway emerged for air freight. Like it or not, Portland International Airport is not a great international airport. We are trying to make it that way, but today we basically have one scheduled international freight on Tuesdays. Maybe there will be more coming up. SeaTac is the gateway for the Northwest and LAX (Los Angeles), for a lot of the other services. Thus, every night we have trucks roaring up to SeaTac with cargo to be loaded on board planes. We also have regular truck moves all the way to Los Angeles to meet up with various European carriers. There is enough money in it for us to do that. The services here are in a feeder formation, though to the shipper it is relatively imperceptible. You have access by air about everywhere on the globe on a fairly regular basis, just as much as you do with ocean freight.

The current level of technology is highly developed and efficient. It is probably not going to be improved tremendously over the next decade. It is hard to visualize the 747 doubling in size. They are going to make a lot of improvements on it, but in terms of cargo capacity, that is going to be about it. As far as shipping containers by ocean, it was found that the 20- and 40-foot containers are international standards. There are already some problems with some of the higher cube 40s in Japan, but those are being resolved.

The American President Line is experimenting with a 45-foot container and we will see how far that goes. You are talking about a revolution in technology that came out of the sixties. It's here and we are almost on a plateau, not really an ascending curve, in the development of those things.

Look at the kinds of ships that U.S. Line is building now. These are 4,000-TEU capacity vessels. Again, it is going to be hard to imagine an 8,000-TEU capacity vessel. There is going to be only so much freight available in order to turn around a ship, so I don't see a big change, except a refinement in the basic technology of transportation. Additional improvements are probably going to come from the area of management of those same resources.

I'd like to give you some background information on the way transportation is organized and regulated. The idea of marketplace economics was not invented by Reagan. Actually it came out of the mid-seventies. The idea of deregulation of the transportation industries was promoted hotly and heavily by the Carter administration. In 1978 Congress passed the first brick, if you will, in the deregulation process. It was the Airline Deregulation Act of 1978, which in effect led to the decline of the Civil Aeronautics Board. We no longer have a CAB. The remnants of the regulation, having to do with certain filings and safety requirements, are within the Department of Transportation.

Then the Staggers Act of 1980 was passed. It was the same idea--to get government out of the marketplace. Thus the ICC's (Interstate Commerce Commission) powers have been greatly reduced. Shipper and carrier have a lot of freedom in contracting. Government isn't necessarily going to force service into an area where it would be inefficient or uneconomical for the carrier. Again, we are letting the marketplace determine what the right price is and whether there ought to be service or not.

Belatedly, in 1984, the Shipping Act was finally passed. It had the same general idea behind it. That is, government regulators were frustrating the free-market forces that wanted to make efficient transportation available to the general public. The government's intent was the same, but it went about it a little differently. What happened with air, rail, and truck was to make sure that the antitrust laws worked. The Justice Department is probably more active in looking out for collusion, to make sure the marketplace works. The opposite tact was taken with the Shipping Act. It was recognized that the shipping industry worldwide operated through cartels called conferences. The U.S. wasn't going to be able to get out of it by unilateral legislation. So we acknowledged that shipping cartels had a benefit for the purpose of stabilizing rates and rationalizing service. But in exchange for renewed antitrust immunity for the shipping cartels, Congress went out of its way to say, "Now that these boys have this economic power and antitrust immunity, we are going to offset that with a couple of things, namely, the notion of independent action. Each conference carrier must have the right to act independently."

That was one of the major bricks in the law. The other one was that these cartels must acknowledge shippers' associations. Now shippers' associations can and do in fact deal with conference cartels in order to set rates to protect the little guys. There is a provision in the law that mandates that the shipper and carrier can get together to write service contracts for an extended period of time. There is a requirement that for most things that are offered by common carriers, a tariff be filed with the Federal Maritime Commission (FMC). The following are exceptions: forest products, scrap metal, waste paper, and bulk cargo. Those simply got in there because a few people lobbied for them. There is no reason the fish people, if they thought that publishing tariffs for their products would inhibit their marketing efforts, couldn't go back to Congress and say, "me too," and probably get an exemption. Probably over the next five years we will talk ourselves out of having tariffs altogether.

The carriers benefitted from Congress' action by being able to come together on the positive side of this thing. They can rationalize service; they can cross charter. Oriental Overseas Container Line and Y-S (Yamashita-Shinniyhon) Line can put each other's containers on each other's ships. This is what the Europeans have done for years with their air service. If you book a plane out of Brussels for London, you might be booked on Sabena, but when you get to London it might be on someone else's plane. The same kind of an idea is allowed with ocean transportation. I think that it will have some good economic benefits and help the shipper, especially by offering regularly scheduled service.

As I mentioned to you earlier, the only thing left of the Shipping Act is the idea of retaining it as a repository for tariffs and agreements. There are a few things that the FMC is going to be checking in the marketplace to see that there are no violations. But they are not taking an advocate's role as they used to. They used to be out looking for someone who was cheating on the law. I think they are going to lay back and wait for someone to complain. If the shipper or carrier complains, then they will take some action.

The current state of affairs with the airline industry is, for all practical purposes, an almost totally open and free market. If you call in the morning and want to know what it is going to cost to ship 200 pounds of fish to Tokyo, you might get one rate at 11:00 a.m. Someone else at 11:30 might get a rate that is going to beat it by a nickel a pound. After lunch, we might have still another rate. It is a totally free, fluctuating event. It is good news and bad news. In some ways rates are going to follow the market a lot more closely; that's good news. The bad news is, it's a little difficult to predict, with delivered prices, exactly what it is that you are going to pay for transportation. So you develop little techniques for coping with a certain amount of uncertainty. There is, as in anything else, a market level for freight. There are certain parameters of up and down and you will find that you can stay somewhere within a market, but at any given moment you may or may not have the lowest quote for the service offered.

With the CAB out of business, a vestige of regulation is left under an organization called the International Air Transport Association. It allegedly does regulate rates and routes, but whatever happens to be in the tariff is negotiable. George Bush and Company buys 30 pounds of books containing the airline tariffs for $1,200 to $1,300 a year. I think, in terms of using them on a regular basis, they are more useful as dart boards. The published tariff rates are not enforced; it is very much a free market.

The next thing that is going to affect transportation is the increased administrative efficiency that has resulted from the use of computer technology. This efficiency is really at the budding stage. Look at a typical cycle of a sale. You may or may not have a salesman out there responding to an inquiry, but basically you produce something called a bid, quote, or proforma invoice which is sent over by mail, telex, or both. The order is eventually placed. Then you have an order acknowledgement cycle. You may begin production and accumulation. Subject to that, you have certain requirements that may deal with export licensing, procuring a letter of credit, or other things that are contingent on the sale. When you have letters of credit properly lined up and inspections or whatever controls or inspections are applicable to the product completed, then you go through a shipment cycle. Once you have delivered cargo to a carrier and you effect shipment, then you do documentation, invoicing, banking collection, and distribution of paper. Then it goes to the bank for collection. Finally it gets to the other, where it goes through customs, clearance, more paperwork and delivery. What computers are eventually going to do is start cutting down some of these things so that at the point of border acknowledgement, you preload everything--customs clearance, classification, and so on.

The U.S. is behind in a lot of things, but I think that in the application of computer technology to trade, we are on the leading edge internationally. For example, a U.S. Customs program called the automated commercial system is looking at something called the "paperless entry" of cargo. Our company has just received approval this year to file customs entries electronically with U.S. Custom's computer in Virginia. That generates another subprogram, called an accept program, in which this computer sorts out those cargos customs may want to look at for a variety of reasons, whether it is quota problems or whatever else. If you are not on a high risk list, the odds are that you can actually preclear all these merchandizing goods prior to the arrival of the vessel.

A lot of subprograms and modules are currently being developed. In fact, when a ship comes into terminal 6 and dumps containers off the dock, an hour later they are sent on their way. The reverse of that is apt to happen overseas, especially in the industrialized parts of the world. All of that collectively is going to have an enormous impact on the efficient movement of cargos.

What are the implications of all this to moving fish overseas? I think that in spite of all the glum news that you are hearing today, from the transportation point of view you have nothing but the best of news. You've got the best of both worlds. You have excellent equipment, an adequate supply of the equipment, and more service than you need. Right now the freight market is definitely in your favor. There are more ships and containers out there than there is cargo. There is excellent and frequent service. Right now you can get a ship daily into Japan if you want. You can get flights daily into the major trading areas. The schedules themselves are becoming more and more predictable. Under the current malaise of the freight market (caused by the fact that there just isn't enough cargo to fill the ships), you have the lowest transportation prices in relative terms that you have ever had. I did a little research in January on rates over the past three or four years. It was really startling to find out that on food products, the freight rates since about 1981 to 1985 had declined on the average of 50 percent. Freight is a real bargain. Transportation is plentiful, good, and cheap. In addition, other costs (ancillary costs of moving cargo such as insurance rates, customs clearance collections, even bank collections) have succumbed to competition and are basically down. The costs of doing business and moving products are very good now.

If you can't sell fish overseas, it really isn't because of transportation and related services. There are plenty of other reasons. I would like to leave you with one bit of prejudiced information. That is, in international trade, there are really no real magic words. If you shake it down and look at international trading as sophisticated sellers and sophisticated buyers with jargon meant to confuse outsiders, that should be helpful. That is what it is really all about. A smart seller will take his product to his market and a savvy buyer will attempt to buy at the source of the product, thereby staying in control and maximizing profit. What is in between these two things is called transportation and related services. Some of the major corporations are using marketing and combining it with transportation for strategic reasons. That is sort of a revolution where the traffic manager has now been elevated to something other than what he was before. He is part of a marketing team. It makes a lot of sense.

DISCUSSION

Question: Are exports moving faster into computerization of documents than imports?

Frank Dausz: Yes, the general trend for electronic processing seems to be on the export side. The Bureau of Census is allowing exporters and freight forwarders to file the export statistical data into their computer electronically. I think probably one of the next stages of development for those exporters who see value in using forwarders is to plug the forwarder in at the point called order entry. What the forwarder will eventually provide in feedback form are edits; checks; critical point junctions signed by trucker, by dock, on board ship, and on board plane; documents to the bank; payment collections; and so on. A lot of those in the long run are going to be done electronically. I think you will find there are some people who are doing this now, especially for larger corporations. Instead of mailing tons of documents overseas, they transmit the documents by satellite.

Question: Do you see any increase in domestic transportation service out of the home areas like Alaska to facilitate trade?
(This question refers to the fact that the Jones Act prohibits foreign carriers from operating between any two U.S. ports-- like Alaska to Seattle.)

Frank Dausz: That is local politics. Fortunately for me, my business doesn't take me there. But Alaska, Puerto Rico, and Hawaii are pretty much a monopoly situation and embroiled in politics. You've all heard of the Jones Act and the wonderful things it has caused to happen. I think the carrier is just going to make a lot of money in those trades and do very well. It is one of the few areas where you're stuck. U.S. carriers have a monopoly and want to keep it. The Jones Act allows them to do just that.

## PANEL: APPLYING CURRENT TRENDS TO INTERNATIONAL TRADE IN FISHERIES AND RELATED PRODUCTS

### Terry Elwell

*Terry Elwell, marketing director for the West Coast Fisheries Development Foundation, got his M.A. in international trade from California State University in Sacramento and his M.S. in Marine Resource Management at OSU. He was the regional supervisor of the marketing department of Blue Diamond Almonds in Sacramento, California, from 1976 to 1977. In 1977, he became the director of international marketing for Riverbend Farms in Fresno, California. In 1980, he was a fisheries development specialist for the National Marine Fisheries Service in Juneau, Alaska, and in 1982 he was with the marketing department at Trident Seafoods. Since 1982 he has been with the West Coast Fisheries Development Foundation.*

In this panel, we are going to talk about countertrade. We will cover specifics as far as seafood is directly concerned.

Countertrading goes all the way back to the ancient Phoenicians. Marco Polo could be accused of being a countertrader, as could Christopher Columbus, the British East India Company, and so on.

I first got into countertrading in grade school. We use to play a lot of marbles, and you could trade one agate for a great bag of cat's eyes. It is very simple, actually. As a heuristic device, we are going to refer to countertrading as "the exchange of any good for another with the eventual transformation into a hard currency." We know it has been done successfully in the seafood industry by a Swedish consortium called Joint Trawlers Limited. Joint Trawlers has successfully traded round frozen anchovies for Nigerian crude oil for resale in Sweden. The most salient example right now is the big Saudi deal with the British Tornado combat jet. The Saudis and the British have just agreed to a four billion dollar transaction. Half of that will be Saudi oil bartered for the Tornado jet, so right now it is a substantial component of global economics.

I did a survey before this presentation. I called a number of seafood companies, in particular, people I know personally. I asked them point blank, "What is the biggest problem you see with countertrading in the seafood industry?

All agreed on this one point: it's not having intrinsic knowledge of the commodity which you obtain for your seafood. Trading salt cod for cork or wine in Portugal is not out of the question. However, the average marketing or salesperson in the marketing department of a seafood company knows very little about the international wine market or the international cork market. I hope our next two speakers will address some of those problems.

## APPLICATIONS OF COUNTERTRADE TO THE SEAFOOD INDUSTRY

**Todd Shaw:**

*Todd Shaw, of Marine Resources in Seattle, Washington, has a degree in aquaculture and is an experienced international trader in salt cod.*

I agree with Terry's remarks on countertrade. When I think of countertrade, the first thing I think of is Economics 101 back in college. There, you had an apple and an orange and you came to a marginal value for the products. You came to some relationship between what one is worth versus the other.

It is a very simple concept. It's been going on for centuries. It's a transaction of goods for goods, commodities for commodities. It's the value two customers attach to each commodity. I think countertrade remains a viable and useful tool for developing trade today with seafood products. Seafood producers and traders can really use countertrade in today's very difficult export market. As to my conceptual framework for countertrade and how to open doors to get trade going, I'll give an outline of what I think it takes.

First of all, you have to look beyond the initial barriers that might appear to be obstacles to getting trade going on a normal trade basis, currency for goods. I've experienced things such as currency regulations in Portugal where the foreigner cannot get foreign currency to buy the products which you have. Other barriers are import/export regulations, such as those in a country like Brazil, which regulate most commodities coming in and going out of the country. Another obstacle is a lack of a real currency in many of the African countries, South America, and the Eastern Block. Many of those countries just don't have hard currency with which to trade.

Second, you need to consider a very wide range of products to use for countertrade. It's not always possible for a seafood producer to get in return for seafood a commodity with which they are familiar, then convert that into hard currency. Many times, the best way to do it is to use a brokerage of unfamiliar commodities that you received for a countertrade and some other middleman who is familiar with that commodity. Then, the middleman sells that commodity and pays you with hard currency. Also, if it is a long-term trading relationship, you must be willing to integrate vertically into the sales and marketing of that commodity with which you might not initially be familiar. That would involve hiring people with expertise in that commodity. This again is so that you can convert the commodity to currency.

A third thing: you really have to sit down and evaluate the risks of entering the countertrade relationship. When not dealing in hard currency, you have to be aware of several things. First of all, you have to realize the price fluctuation of a commodity which you might receive. For example, say you were trading a commodity and you were receiving crude oil in payment. My wife works for a stock brokerage company. She called me up frantically last week and said, "Did you hear that oil prices are dropping to $18.00/barrel?" Of course, what if oil did drop that far? And what if it was a commodity you received a day before? Well, you just took a huge drop in value in the product you are trading. Another thing to keep in mind when you are evaluating risks: you have to be assured that your trading partner can deliver a commodity or goods that are in a readily acceptable form. You don't want to receive something that you have to turn around and have reprocessed or reformulated in some form before you can sell. You really want to have a tangible resource that you can turn over right there and turn into hard currency again.

As far as finding partners in sales or marketing, that's a task that is never ending. There are a few ways to go about doing it. First of all don't overlook your old business contacts. Look in your own back yard. Don't be afraid to ask your existing customers if they would consider different or new ways of doing business, including countertrade. Sometimes these are the best and most obvious places to start.

Second, check governmental services, National Marine Fisheries (regional and Washington, D.C., offices) and the U.S. Foreign and Commercial Service (both locally and in embassies around the world have been an asset to me). In addition, check state and local industry services. What I would realistically expect from the governmental services would be general information and customer lists. Don't expect specifics. Most of these people have not traded products themselves and maybe aren't versed in the mercantile pitfalls that can happen in the export business.

Use development foundations such as the West Coast Fisheries Development Foundation. I've received a tip or two from Terry over the years. Really, someone like Terry has extensive contacts worldwide and a lot of expertise on a first basis. It is useful to use contacts like that in finding partners. Use worldwide commodity brokers. I'm thinking of specialist brokers, including Joint Trawlers. Ltd. I've been involved in a couple transactions with these people. They have an extensive network and are very professional. In the company I'm working for right now, Marine Resources, we do quite a bit of trading and countertrading like Joint Trawlers. Japanese trading houses are another potential information source. Many of the large trading houses have offices all over the world and have extensive contacts. Many of these houses are dealing in a wide variety of commodities. Let me also suggest checking with multinational corporations. People like Exxon, Boeing, and Weyerhauser have worldwide contacts and are dealing in a wide variety of commodities other than just what might appear initially applicable.

Finally, the export trading company is kind of a new arrival on the scene. I would say they offer or can offer you partners to countertrade with. I have not been all that impressed with the bank export trading companies. I think the independent ones specializing in trade are much better. I don't know if there are any bankers here, but bankers like to keep their money in banks and not in commodities. Thus, perhaps they are not the best people to deal with in countertrading.

From a practical standpoint, I'll illustrate two examples of countertrade with which I've been involved. First of all, Terry was mentioning trading salt codfish, an interesting commodity. It leaves you room for imagination on how to sell it. I was involved two years ago in a transaction with a Portuguese fishing company. They had their vessel off the east coast of Newfoundland. They really didn't have any access to foreign currency. Their government restricted them. It would take approximately 30 days, maybe even longer, to get foreign currency. They wanted fish, I wanted money, so I had to use different methods to get the transaction completed. Here's what we did. There was also a Japanese company in the area. They were actually purchasing redfish (Sebastes) from the Portuguese. The Portuguese had been fishing for redfish off Grand Banks. Our company was very familiar with the Japanese company. We have done millions of dollars of business, really on a handshake, with this particular company, so we trusted their word. In a day's time, we were able to put together an agreement. The Portuguese would receive a wet salted codfish, the Japanese would receive the redfish, which is what they wanted, and I would receive my greenbacks as I wanted. It worked out very well. I didn't want to end up with a lot of redfish that I didn't have a clue what to do with. Or I didn't want to have to find somebody to buy them. We had an established relationship with this particular Japanese company and so the transaction was able to go over relatively smoothly.

Here is a second example. Marine Resources (which I work for right now) is a U.S.-U.S.S.R. joint venture. The company basically does joint venture fishing operations. Primarily, operations this year have been in Alaska, but in the past we've operated in Oregon and Washington waters. You may not be familiar with joint ventures where U.S. fishermen deliver roundfish to Soviet processors. The fish is processed on board and then the Soviets pay us for the roundfish. It has been a successful operation. The company has been doing it since 1976, but the limiting factor is that the Soviets have limited hard currency. They are really not able to pay us with dollars, which is, once again, what we want for operations. We put together a quite ingenious countertrading arrangement. What we've done, instead of using dollars or rubles or whatever the case might be, is develop our own currency. We use one metric ton of hake--Pacific whiting. You can't turn to the Financial Times or the Wall Street Journal and find that listed in foreign currencies, but for us it works just fine. We have everything in equivalents of one metric ton of hake. The Soviets get a high-volume, low-value product. We convert codfish and pollock into equivalents of hake, and our company receives, in payment, king crab from Soviet waters, headed and gutted cod, and headed and gutted pollock. Then we turn around and market those products with which we are very familiar. It is "open doors" for us in other products and commodities from companies which actually buy some of the headed and gutted cod and pollock. We turn around, receive products, and sell those products back into the United States. It's been a good avenue to expand our trading and selling domestically and internationally.

I think the most important thing to remember about countertrading is that it is an export trading fact of life in the 1980s. I might even go as far as to say it is a matter of, really, survival. It is sometimes the difference between making a sale and not making a sale. Personally, I would prefer on each transaction to sell fish and receive dollars or readily convertible currencies as payment. All the costs of business in the United States are of course in dollars and that is what I would rather have. In the case of Marine Resources' countertrades, its "open doors" for product types, for markets, and for customers who probably otherwise would be unavailable. Opportunities for us have come up because we're a vertically integrated company able to use market channels and the additional trading that comes about from that.

My recommendations for anybody approaching countertrade would be, first of all, to approach the subject very soberly. It's an opportunity, and at the same time it has limitations. Second, I would ask myself the question "Can I sell or readily convert the commodity that I am obtaining into hard currency?" Without this it really becomes very complex, maybe even a potential failure. I would tuck countertrade in my pocket as a tool--something to have in my arsenal to develop and expand trade, something that is a little different from my competitor. It's a way to put the sale together when otherwise it wouldn't be possible. I would consider it to be a tool, to take it and use it when you need to.

## FINDING YOUR NICHE IN TODAY'S EXPORT MARKET

**Larz Malony**

*Larz Malony is director of marine products for Viking International of Portland, Oregon.*

I'm going to discuss how to approach development of an export program from a producer's or a trader's point of view if you have never done it before. I hope my comments will not insult anyone.

I wish I would have had a chance to talk to Todd before he did his redfish program in Japan. We are lucky enough to do a lot of redfish out of Nova Scotia and Newfoundland into our Japanese office. I tried this past year to do a countertrade of sorts on Atlantic cod and Sebastes marinus (redfish) out of Newfoundland. It is a lot easier said than done.

One has to consider a lot of different points when approaching an export market, depending on whether one is a primary producer, a trading company, or a broker. I will touch on a few of these quickly as I go along. I think the first and most important aspect in finding your niche in an export market is your ability to communicate. If you don't have the ability to communicate, if you don't have the patience and energy to go out there and learn how to communicate with the people in those markets, then you will have a lot of trouble. Patience is a real virtue in trying to develop a market because there are so many barriers to understanding what the other people are saying. For example, you must understand what kind of specifications others need in a product, what they truly need from you, and what you need from them. You have to learn how to communicate.

Another important thing is being very familiar with and confident about your product and confident in your ability to produce that product for a specific market. If you have any doubt about that product, then stop. You should go back to step one and figure out exactly what you can do well. If you are trying to represent a product that you think you can get or you think you have a pretty good handle on how to produce but you're not currently producing it, then you are in trouble.

By being confident of the types of products you can produce or supply, you will have a good base on which to represent your product to that new potential client in an export market. Then, knowing your product mix, you can go on what is called a discovery mission and try to determine the export markets which have used a similar product before or indeed have used your product before. A good start is with the various fisheries development foundations located in the United States. We are very lucky to have a whole network of fisheries development foundations located in different areas of the U.S. Here in Portland, of course, is the West Coast Fisheries Development Foundation which Pete Granger and Terry Elwell head up so well. That is an excellent place to start. Talk to them about people that they have talked to in their various ventures overseas and talk to them about your product. Talk to them about the product form you might be able to use and the market you might be able to use it in. Find out if they have had inquiries about a particular product.

It was very helpful to me when I started to get into the trading business to be able to talk to the various U.S.-based trade attachés of the countries in which I wanted to start marketing my product. They are located in areas such as Los Angeles, San Francisco, New York, and Miami. There are also a few in Portland that are very helpful. They will be able to give you further information on which importers have in the past expressed an interest in your product. From there you can begin to complete your list of who you want to begin to contact.

Vehicles of communication are very important. There are several different ways of communicating, but I have some that work better than others. For instance, smoke signals have never worked for me. Remember, the basic premise is that you must feel confident of your product, and if you don't, then you are in big trouble. Depending on how much lead time you have, a letter of full introduction is important. Many of you people already realize that.

When you have your list of potential importers or markets to which you want to go, write a very good letter introducing yourself and your company, describing the different product mix that you can provide and how your products have worked well in the markets. Send this to your buyers, expressing your desire to enter their market and to work with them. Also mention that you will be following up with them in the near future. Allow a certain amount of time for their response. If they choose to respond quickly, you will know that you have someone who is very interested in your product. If you do not receive a response in a reasonable amount of time you should call them. Even international calls are not difficult. You usually will find someone who can help you reach the party you want to talk to. During this conversation you should be able to note whether they do have an interest in your product and have received your letter and appreciate your following up. If the response is negative, you will know that they are not interested. If all looks positive you can lay out a framework with those buyers on how you plan to communicate in the future and how you can best work with each other and what each of you will need to satisfy the requirements of this international transaction.

As you proceed, you will determine the various requirements and specifications that your buyer will need to get the product into his country and to service this market. Pay very close attention to this because if by chance you get a part of the specifications wrong or if you don't listen and don't send all your documents along with your shipment, then your product is either going to be greatly delayed at the port of entry or it is going to be rejected. When products are rejected, in this country, as well as in any other country, you have to either destroy them or send them back.

It is also important to give your quotes in writing and to receive your confirmation in writing. This is where telex machines come in extremely handy. Without full confirmation, you should never ship your product anywhere outside of your firm, unless of course you have the full amount of money in your hand. Sometimes people become so anxious about making a deal or entering a new market that they do some stupid things. If you send the product off in a container and you don't have a full confirmation in writing or your money or a letter of credit already filed, then you are setting yourself up for a very rude awakening.

A facsimile machine is another a device that has come in handy as the information industry gets stronger and much more developed. We are lucky enough to have a facsimile machine in our offices in Japan, Portland, Switzerland, and Amsterdam. When you need to get a document to your buyer very quickly, it is easy when you are able to put the document on the facsimile machine and send it to your other office or to their office. As we proceed, more and more companies will have facsimile machines.

As you develop communication and sales in your new export market, you will be able to investigate the opportunities for new products that you may want to export. It is best to develop a track record based upon traditional market products which you can produce well and perform well on, rather than to introduce a new idea at the start. Through this exercise you will begin to get a handle on your abilities and limitations in servicing your export markets. At the same time, you will continue to learn about those markets and what products do well and why they do well, which is very important in servicing your export market.

DISCUSSION

Question: Todd, being involved in a joint venture with the Soviets, as your company is, are there particular benefits for dealing with Eastern Block countries? Are you in a better position, than, say, a trading company that doesn't have a joint venture going on with the Soviets?

Todd Shaw: I think there are definitely benefits. We are in the process of getting an office in Moscow which we feel will even enhance that situation. Opportunities come by every day. In any sort of business situation, the more you can capitalize on opportunities the better. Just the fact that we have had a successful joint venture with the Soviets since 1976, during a wild environment of political events, speaks for our company. Other countries are encouraged by our record to propose and do things with us.

Question: Isn't it true that government regulations for joint ventures are now becoming obsolete? Like those 15 boats fishing for the Russians in southern Alaska. Isn't everyone basically phasing out?

Larz Malony: It is true for some of the fish species such as Pacific codfish. The Fisheries Conservation and Management Act specifies that domestic use has first priority. If there is a domestic industry that can use all the Pacific cod or whatever other fish resource, then they get the first crack at it. The U.S. industry can get the whole resource. This year, with Pacific codfish, most likely there will be no foreign allocations to any country. There are some amendments to the FCMA, proposed this year, that will set a time frame to phase out joint ventures. However, you have to remember that there are 1.2 million metric tons of pollock in the Bering Sea, a hake resource off Washington and Oregon, and a yellowfin sole resource in Alaska. At this time there is no domestic company using those resources. Even this proposed amendment has provisions stating that as long as there is no domestic use, there will always be the opportunity for joint ventures.

Question: Isn't it true, though, that the big fish companies have decided to switch from Atlantic cod to the North Pacific and snow cod?

Larz Malony: Yes, they are going to use Alaskan codfish. They are using fish off the factory trawlers operating in Alaska. I really applaud them in doing it. It is a great move. They are not using pollock, though. They are using just the Pacific codfish.

Question: Larz, in those countries where you do not have an office and you want to trade with some company in that country, would you find it advantageous to go in and hire some broker or have some representative there rather than to try to do it yourself?

Larz Malony: Many times that is helpful. For example, when we tried to make some entries into the French market, we found that many times we were really beating our heads against the wall. Even our Amsterdam office had a few problems. In a market like France, it is very good to work with a brokerage group that has traditionally been using products from the United States and has worked with products like yours. In other areas, many times it is still worth your while to go there and try to make the connections yourself. As far as Europe, Holland, and England go, there really isn't problem. Many times people appreciate your aggressiveness. If you handle yourself in a professional manner and follow up on your communication on a regular basis, then you can do business in those areas. In Japan it is a little bit of a different story. If we didn't have an office in Japan, it would be very difficult to make cold calls in Japan. You don't get a response.

Question: It was mentioned before in the introductions that the fishing and seafood industries are vertically integrated, and this idea brings to mind a question about the quality. When a fish is dead, the time clock is running and you have a problem in terms of what to do with it. Value-added products have not been discussed very much today, but that fish can end up at the consumer level in several form, depending on how it is handled and processed. The quality features are a large part of improving the value. How do you treat the value-added opportunities or options in trying to break into an additional market or when you countertrade?

Todd Shaw: From my experience with salted codfish, I think that, first of all, you can create a niche beyond quality. This is especially true if your product is more available seasonally and is, of course, intrinsically higher quality fish. In our situation with salted cod, our fish was caught, brought to the plant, and processed within six to eight hours of the time it came out of the water. In contrast, many times in Canada, for example, they have boats that are out for a week before the fish come in and are processed. The fish are headed and gutted on the boat, but still sit for seven days before being processed. It makes acceptable salt cod, but it was not as good as fish that had been processed in six hours time.

Larz Malony: Also, you run into the reality of underutilized species. For example, we have a great resource of box crab off the Oregon coast. It is a delicious crab but it is a difficult crab to market because it is very spiny looking. We tried to move that in Japan, but then thought that wouldn't work because the recovery rate of crab meat is so small. Then we tried to market some portions as meat packs. The problem with that was that because of the recovery rate, the meat was too expensive.

In marketing your product, if you can prove your product is better, then many times people at the very least will look at it. This I think is the most important thing. In the long run, if you are going to offer a higher quality new product and you are not going to offer the buyer something significant as far as savings of dollars, then it is going to make your marketing chore much more difficult.

Todd Shaw: I would like to reiterate that point. When you are initially breaking into a market, even if you have a superior quality product, it eventually boils down to how your price stacks up against everybody else's.

Pete Granger: We do have a value-added product which may in time produce incredible dividends if we control the resources. This is the surimi area. At this point we can't use it totally, but if we can succeed in developing a production atmosphere here, starting to produce it ourselves, marketing it domestically and in foreign countries, we will have achieved a fine value-added product. We will have control over the largest resource in the world and we can make a lot of money on it. Whether that comes true or not and whether the Japanese continue to lead the effort in that area, I don't know.

Terry Elwell: In dealing with countertrading, you are dealing with a lot of developing nations. The bottom line is that you are facing a commodity situation. I personally see value-added products having limited advantage when you are dealing in that basic of an area. What you are really doing is dealing with a matrix of second, third, and fourth world nations when you are dealing with countertrading. The one exception might be Spain. You could probably do a good job of putting together anchovies and oil in some of those little oval cans and perhaps trading that product for squid or something like that. That would be about the maximum value added I would see.

Todd Shaw: When you are dealing domestically and you see a 40-foot truck of fish going down the highway, that is considered a good size sale in the domestic fish industry. When you are trading internationally you are talking boat loads. You are looking at 500 tons minimum. You are looking at large volumes of product. Hence, most times the product is headed and gutted or very simply processed like wet, salted codfish. It is still in a bulk state.