Pakistan Foundation for the Advancement of Engineering & Technology's

EXPORT FACILITATION & ASSISTANCE PROGRAME

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09

VII. EXPORT SUPPORT SERVICES

A. Introduction

This session examines the importance and related knowledge of trade facilitation activities inclusive of documentation alignment and procedures and the role of The PFAET. Also explained are the natures of financial and trading risks and the requirements of export financing by exporters. Various modes and instruments of export financing, export credit insurance and financial guarantees are extensively covered. The significance of an PFAET in the provision of support services such as packaging, costing, pricing and legal matters for exporters are also explained.

B. Trade facilitation and documentation

1. Trade facilitation

Trade facilitation is an important export support service that could be provided by the PFAET. Trade facilitation is defined as the simplification and harmonization of international trade procedures, with trade procedures being the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade. This definition relates to a wide range of activities, such as import and export procedures (customs or licensing procedures); transport formalities; and payments, insurance and other financial requirements.

In general, the focus should be on the smooth and rapid movement of a country's products to the outside world and the smooth and rapid movement of important inputs reaching important sectors of the domestic market. The lack of an efficient trade facilitation mechanism will impede both imports and exports.

The basis of any trade facilitation is a transparent and strong legal framework. Clear regulations on the process and application procedures for imports and exports should be defined and closely follow international practices. The legal framework must establish the regulatory authority or authorities and the scope of their authority

2. Trade procedures and documentation

Trade procedures have to be transparent in order to be effective. This will require efforts by the import/export regulatory body to actively disseminate the regulations to traders and give updates on any regulatory changes. The regulatory body could use the assistance of the PFAET, especially its TIS.

Proper documentation and clear procedures are necessary to facilitate the traffic and transit of products in and out the country. Procedures must be well-documented and widely disseminated. It is common for most government departments and agencies to have their own documentation forms. However, this creates problems for traders who have to visit each authority separately to clarify the information required in the forms. The PFAET ensure that such documentation and procedures are simplified.

Figure 17. Examples of assistance packages

At first, the legal system in PAKISTAN may seem confusing to the foreign businessperson. The National Assembly is the legislative body, which passes laws. The government passes decrees in order to implement the laws. Circulars issued by responsible ministries or agencies describe in detail the regulatory procedures involved when implementing the laws and decrees.

The Ministry of Trade of PAKISTAN has been taking steps to make trade regulations clearer and more specific. The Ministry also ensures that its trade regulation circulars and the latest updates are easily accessible and are disseminated to local and foreign trading communities. It often uses the services of the Viet Nam Trade Information Center to publish the latest trade regulations in its trade publications, as well as through its Internet service, VinaNet.

The Ministry has also recently started listing the contact details of officers in their circulars, so the trading community will know whom to contact when there are problems with implementation of new regulations.

3. The role of the PFAETs in trade facilitation

Very few PFAETs PERSONEL are directly responsible for trade facilitation. Those responsible have units involved in registering exporters/traders and ensuring that import/export procedures are simplified, as is the case with the PAKISTAN Trade Development Board.

PFAET without a direct trade facilitation role can still be influential in an advisory capacity to the government on trade facilitation issues. They can represent the interests and concerns of the private sector. Through their overseas commercial representatives, PFAETs can monitor and report on other countries' trade facilitation. Given the importance of trade facilitation for exports, PFAETs could set up a sub-unit or sub-units to provide the government new ideas to improve trade facilitation.

Trade facilitation role of PAKISTAN Trade Development Board

The PAKISTAN Trade Development Board (STDB) is the issuing authority for export/import permits and various certificates necessary for imports and exports. These include ; for example, Certificates of Origin, GSP Form A, and CEPT Form D. Officers from the Board continuously develop new systems with simplified procedures to cut down paperwork for traders.

Trade procedures are constantly being reviewed and simplified, and much of the preparation, submission and processing of documents is now done automatically through TradeNet, a nation-wide electronic data interchange (EDI) system. TradeNet was developed and installed in 1986, and today, almost all trade applications by the trading community are made through TradeNet. All applications for import/export permits are processed and approved electronically within 15 to 30 minutes.

C. Export procedures and assistance

The majority of PFAETs, though not directly responsible for trade facilitation, still provide assistance related to export procedures and development of the export community. In most instances, PFAET staff members provide information about export procedures. However, the staff members providing this service may not be familiar with all of the details.

Many developing countries have highly complicated import/export procedures, and simple but informative guidelines on import/export procedures may be lacking. Many exporters may require the services of specialists in order to avoid incorrect practices. THE PFAET can provide clear and detailed guidelines on the various steps in the import/export process. This type of assistance should provide importers/exporters with clear and simple descriptions on import/export procedures and regulations. Through its permanent, ongoing contacts with the business community, a PFAET can identify areas where the existing regulations act as constraints to the export trade. The PFAET can also recommend possible improvements to the authorities.

Help with import/export procedures is particularly important for new exporters, who might not be familiar with procedural matters and for whom the required paperwork might be an obstacle. Some activities of the PFAET could be to:

(i) provide on-the-spot advice to exporters about import/export procedures and related subjects;

(ii) collect and classify information on all regulations that apply to import/export deals;

(iii) prepare simple but comprehensive guidelines to help exporters understand general and specific import/export procedures and update these guidelines when there are any changes;

(iv) prepare an "Exporters' Manual" covering all procedural aspects of export activities and update the manual periodically;

(v) gradually build up files with information on import regulations applicable in the most important foreign markets;

(vi) identify areas in which the existing regulations constrain exports and make recommendations for improvement;

(vii) organize workshops and seminars on export procedures, mainly for the benefit of potential exporters;

(viii) train the trainers in import/export procedures so that they can train/assist the business community in proper documentation.

These activities are best implemented by a PFAET in conjunction with external specialists who are familiar with domestic export procedures and the relevant import regulations in important foreign markets. These specialists should be aware of changes in the regulations, particularly those that affect exports. They should be able to answer questions from all exporters on procedures for all stages of the export trade.

D. Export financing, insurance and guarantees

The promotion of exports requires strong financial support and assistance. The absence of an efficient financial system will be a serious constraint for exporters. In particular, first-time exporters will need facilities like trade financing, export insurance and financial guarantees.

Financing, insurance and guarantees for exports are services covered by almost all PFAETs in developed countries and by about 60 per cent of those in developing countries. There is a close relationship between financing and successfully completing an export deal. Many export deals fail due to inadequate funding. In many cases, it is not because of the lack of appropriate funding sources, but from lack of knowledge about funding sources and how exporters can gain access to them.

Export credit insurance agencies in the public sector usually cover both commercial and political risk in the broadest sense of the terms. They are willing to insure an exporter against the risk of non-payment on the due date specified in the sales contract, (1) in the case of a "supplier credit"; that is, when the exporter gives the importer a period of time to pay for the goods, with or without a credit from the exporter's own bank; or (2) when a bank finances the export operation in the case of a "buyer credit", when the exporter's bank provides credit directly to the importer.

The risk of non-payment may occur in two cases:

(i) When a private buyer in the importing country is not able to make the required payment (deposit) in the local currency to his central bank (or a commercial bank).

(ii) When the buyer in the importing country has deposited the payment in local currency, but his country is not able to convert that amount into hard currency (a political or country risk).

Guarantees are normally granted by financing institutions to support the productive capabilities of exporters. For example, guarantees can be used to import machinery and equipment. In the case of machine imports, a bank can guarantee the payment for the machinery.

Governments can play a proactive role to support trading activities. This is especially for cases with trading partners, whose exporters are not familiar with the region or are concerned about payment. They can through their central banks set up a trade financing scheme where the central banks will guarantee the letter of credits issued by their local banks. This trade- financing scheme is envisaged to be short term mechanism just to initiate trade activities with new trading partners. Once confidence has developed between both sides, the trade-financing scheme can be stopped.

1. Assistance to solve financial problems

Lack of knowledge about the sources of financing to cover export operations is one of the biggest problems faced by exporters in developing countries. This creates complications and prevents exporters from being more actively involved in the export trade. Therefore, the PFAET, together with the government, should consider ways and means to overcome the constraints in export financing. As part of their export support services, PFAET could provide help in solving exporters’ financial problems, through proper guidance in the right types of financial assistance and the handling of credit applications.

It is necessary to have a specialist to give assistance in solving financial problems. This person must have thorough knowledge of:

- entities which provide financing for production and export purposes
- conditions governing terms, interest rates, guarantees and insurance
- the general volume of resources available for credit operations

The specialist must be able to do the following:

(a) Contact various financial institutions (commercial and development banks) to identify the conditions of their credit operations. This should include identifying the documentation required, the rate of interest charged and the terms for required guarantees of repayment;

(b) Form an export finance “contact group” with the financial institutions so that they become an advisory body to the PFAET; develop expertise in completing application forms; and identify possibilities in the country for financing the various stages in the export process, including pre-shipment and post-shipment. The search for information should include the central bank and identify the bank's policies on rediscount facilities;

(c) Prepare information that summarizes and gives details about the existing conditions and sources of financial resources and guarantees for exporters. This information should be gathered in consultation with the financial community/contact group to assure its accuracy. Credit manuals might be a convenient way to disseminate this information to interested parties. The manuals should be in language understandable to the non-professional. When applicable, special privileges granted to exporters as part of available credit operations must be pointed out;

(d) Provide on-the-spot general advice to exporters about possible solutions to their funding needs as well as help on how to complete credit applications. For specific detailed information and advice, the specialist should arrange for the exporter to meet the relevant financial institutions;

(e) Identify specific and general problems related to credit and guarantee regulations that may affect the export sector, make a careful study and then formulate recommendations for solutions. Information on the financial systems of other countries could provide a comparison in order to recommend solutions;

(f) Organize seminars and workshops in order to educate and update exporters on developments in export finance and counter trade;

(g) Guide interested parties to the best sources of technical assistance for doing feasibility studies and other studies, which are required for certain credit arrangements;

(h) Arrange to introduce exporters to the credit and financial institutions relevant to their needs.

2. Functions of a financial specialist

Assistance must be provided in a systematic manner to exporters who are not familiar with existing mechanisms. There is, therefore, a need for a specialist in the PFAET who has a thorough understanding of the sources and mechanisms for export financing.

Some basic functions of The PFAET financial specialist are to:

(a) help manufacturers and exporters to obtain adequate credit coverage for their export operations,

(b) help exporters to fill out questionnaires and application forms required by credit institutions,

(c) guide interested parties to the best sources of technical assistance for doing feasibility studies and other studies which are required for certain credit arrangements,

(d) identify any critical shortcomings in financial facilities by contacting exporters and other PFAET staff,

(e) study credit and finance systems in other countries at similar or comparable stages of development and draw on their experience with credit problems in order to recommend improvements that will make local exporters more competitive.

3. Concentration of PFAET's financial assistance

THE PFAET can help design and implement a credit system that will make producers more competitive in international markets, recognizing the importance which credit facilities play in the export process. Assistance by PFAETshould concentrate mainly on:

(a) identifying the nature of financial requirements in the export sector;

(b) studying credit facilities in competing countries;

(c) making recommendations to the authorities and the financial community on establishing adequate credit facilities for export;

(d) helping exporters (manufacturing or trading concerns) to obtain the necessary financial resources for their production and marketing activities.

4. Export financing instruments

The following list covers the main types of export financing instruments:

(a) Countertrade

There are many forms of countertrade, including:

(i) Barter, which is the exchange of goods and services for other goods and services of equivalent value, with no monetary exchange between exporter and importer.

(ii) Counterpurchase is when the exporter undertakes to buy goods from the importer or from a company nominated by the importer or agrees to arrange for the purchase by a third party. The value of the counterpurchased goods is an agreed percentage of the prices of the goods originally exported.

(iii) Buy-back is where the exporter of heavy equipment agrees to buy products manufactured by the importer.

Countertrade offers a feasible option for Central Asian economies endowed with rich natural resources like oil and grain. For countries with either surrender requirements on foreign earnings (Kazakhstan) or lack of currency convertibility (Uzbekistan), countertrade can be the first step towards export expansion. A case study for buy-back is presented in figure 19.

Note:

The surrender requirement means that companies earning foreign exchange must surrender the hard currency earned for the local currency at a pre-determined rate of exchange.

Figure 19. Russian steel buy-back

In late 1996, BHF Bank provided credits of Deutschmarks (Dm) 400 million to export German steel-plant equipment to Russia. The financing was to be repaid through a buy-back arrangement organized around the lifting of finished steel products. Repayment was guaranteed by a German export credits insurer.

The credits under this agreement were to be made available to the Osko- Electrometallurgical Kombinat (OMK) at Stary Oskol, 700 km south of Moscow, for the purchase of a new rolling mill. The contract for the supply of plant, construction and engineering work was awarded to a consortium.

Repayment was to start in 1998 and run for seven years. Under the buy- back arrangement, repayment was to be made from revenue gained through resale of rolled steel from the new mill once it became operational. A German trading partner agreed to purchase the steel, with a view for sale on world markets.

At the same time, OMK had an exclusive arrangement with a company in the United Kingdom for all steel exports. Under the arrangement, the British company would be the exclusive customer for all the metal exports of OMK and the new mill only for the period during which the loan was being repaid.

Case study taken from Michael Rowe, *Countertrade*, Third Edition, Euromoney Publications PLC, 1997.

(b) Documentary credit

This is the most common form of the commercial letter of credit. A common problem is that many local banks in developing countries have inadequate capital and therefore do not have the ability to back documentary credits. Exporters may require confirmation by their own local banks as an additional source of security, but this creates additional costs, and the banks may not want to assume the risks.

(c) Factoring

This is the sale of accounts receivable or other assets at a discount on a daily, weekly or monthly basis in exchange for immediate cash. The exporter sells the assets at a discount to a factoring house, which assumes all commercial and political risks.

(d) Pre-shipping financing

This is financing for the period prior to the shipment of goods, to support pre-export wages and overhead costs. It is needed especially when production inputs must be imported. Pre- shipment financing is important to smaller enterprises, because the international sales cycle is usually longer than domestic sales cycle. Pre-shipment financing can be in the form of short-term loans, overdrafts, and cash credits.

(e) Post-shipping financing

This is financing for the period following shipment. The ability to be competitive often depends on the credit terms that the exporter offers to buyers. Post-shipment financing is usually short-term.

(f) Buyer's credit

This is a financial arrangement where a lending bank, financial institution, or an export credit agency in the exporting country extends a loan directly to a foreign buyer. The loan may also be indirect through a bank in the buyer's country acting on his behalf to finance the purchase of goods and services from the exporting country. It enables the buyer to make payments due to the supplier under the contract.

(g) Supplier's credit

This is a financing arrangement under which an exporter extends credit to the buyer in the importing country to finance the buyer's purchases.

E. Export credit insurance

Credit insurance is a specialized form of insurance against non-payment of trade debts, when such non-payment arises from commercial or political risks. Under commercial risk, coverage is provided in the event the buyer becomes insolvent, fails to pay, or refuses to take delivery of goods for no justifiable reason.

An exporter, however, also faces risks such as war or political disturbances in the buyer's country, blockage or delay in the transfer of funds and imposition of import restrictions or cancellation of the import license. Export credit insurance involves insuring exporters against such risks. It is commonly used in Europe and is increasingly important in the United States of America as well as in developing markets. With export credit insurance, should any event occur making payment impossible, a claim is payable under the policy.

The types of export credit insurance used differ among countries and according to the needs of enterprises. The most commonly used types include:

(i) Short-term export credit insurance covers periods of not more than 180 days. Protection covers pre- shipment and post-shipment risks, the former covering the period between the awarding of contracts until shipment. Protection can also be offered against commercial and political risks.

(ii) Medium and long-term export credit insurance is issued for credits extending for medium-term periods (up to three years) or longer. Protection is provided for financing exports of capital goods and services.

(iii) Investment insurance is offered to exporters investing in foreign countries.

(iv) Exchange risk insurance covers losses from fluctuations in exchange rate between exporters' and importers' national currencies over a period of time.

The benefits of credit insurance include:

- exporters ability to offer buyers competitive payment terms
- protection against risks and financial costs of non- payment
- access to working capital
- protection from foreign exchange losses and fluctuations
- reduction of the need for tangible security when borrowing from banks.

Export credit insurance lessens the financial impact of risks. There are specialized financial institutions that offer insurance, with premiums depending on the risk of the export markets and export products.

1. Export credit insurance agencies

Export credit insurance agencies act as a bridge between banks and exporters. By alleviating the financial impact of risks that exporters face, they make banks more assured of exporters' ability to repay loans. Governments traditionally assume the role of credit insurance agents, because they are considered to be the only institutions in a position to bear political risks.

For emerging economies where the financial sector is still developing, the government, or a government agent, has the responsibility to act as the export credit insurance agent. A good example for this was the Export Credit Insurance Corporation of PAKISTAN. Refer to figure 20.

Figure 20. Export Credit Insurance Corporation of PAKISTAN

During the early 1970s, PAKISTAN did not have an export credit insurance agency to provide protection to exporters against the risks associated with overseas markets. Exporters were thus reluctant to venture into new markets or those perceived as risky.

This caused the PAKISTAN Government to step in, and together with commercial banks, it established the Export Credit Insurance Corporation of PAKISTAN in 1976 to assist PAKISTANI companies to promote their exports in overseas markets by providing risk protection. As a result, exporters were willing to look for new markets in the Middle East and Africa, instead of selling only to traditional markets.

F. Financial support infrastructure

Access to financing for new exporters tend to be restricted, because banks are not willing to lend to them or charge high interest for loans. Exporters cannot afford to finance high interest payments, as this would affect their exports. THE PFAET could actively suggest that its government seriously consider various forms of financial support such as:

- Central Bank refinancing schemes
- specialized financial institutes like export-import banks
- minimizing trade risks

Under the Central Bank financing scheme, commercial bills of exporters are rediscounted at concessional rates. This provides inexpensive post-shipment financing for exporters to quickly turn around funds for further exports. The government subsidizes the cost of funds that exporters have to pay if they rediscount their bills with commercial banks.

The government can also offer factoring, again, at subsidized rates. Factoring is the practice where exporters can sell term debts for less cash than the face value of the debt. This discount rate is dependent on overseas buyers, credit terms and the market where the goods have been sold.

An export-import (EXPB) Bank specifically provides for the needs of exporters, importers, and investors in foreign markets. It offers various services, including long-term direct loans to foreign buyers for large loans and sizeable equipment sales.

Several countries, including some developed nations, have used EXPB banks. For example, the Bank of the United States was created in 1934 and established under its present regulations in 1945. Its primary role is to help in financing exports from the United States, and for medium-term transactions of 181 days to five years. It co-operates with commercial banks in the United States by providing export credit guarantees. Its main recipients are small businesses in the United States. In setting up the EXPB Bank, the United States recognized that job creation is a consequence of exports. Other countries, such as Thailand and USA, have set up EXPB banks for similar reasons.

The Export-Import and NBP Bank of PAKISTAN

EPB PAKISTAN was set up to finance, facilitate, and promote PAKISTAN's international trade. The NBP bank is the principal financial institution in the country for coordinating the work of institutions engaged in financing exports and imports. The mission of the bank is to develop commercially viable relationships with externally- oriented companies by offering a comprehensive range of products and services aimed at helping PAKISTANIS companies to globalize.

NPB PAKISTAN operates a wide range of financing and promotional programmes. The bank finances exports of PAKISTANIS machinery, manufactured goods, consultancy and technology services on deferred payment terms. NPB PAKISTAN also seeks to co-finance projects with global and regional development agencies to assist PAKISTANIS exporters.

The bank is involved in promoting two-way technology transfer through the outward flow of investment in PAKISTANIS joint ventures overseas and the flow of foreign direct investment into PAKISTAN.

EPB PAKISTAN is also a partner institution with the European Union and operates a European Community

Investment Partners' Programme (ECIP) for facilitating promotion of joint ventures in PAKISTAN through technical and financial collaboration with medium- sized firms in the European Union.

G. Trade risks

In addition to problems with financing, exporters also face commercial or political risks. Commercial risk arises from factors like the non-acceptance of goods by buyers, the failure of buyers to pay and the failure of foreign banks to honor documentary credits. Political risk arises from war, riots, civil disturbances, blockage of foreign exchange transfers, and currency devaluations.

Another risk that traders face comes from the volatility of the foreign exchange markets. Exchange rates may move against exporters, resulting in reduced profits or out-right losses. Similarly, commodity prices are also volatile. This lack of uncertainty will affect procurement and production.

Both exporters and importers can minimize their risk exposure to adverse movementsin foreign exchange and international commodity prices through the use of forward and future contracts.

1. Forward markets

There is a forward market as well as a spot market in foreign currencies. In spot markets, currencies are bought and sold for immediate delivery. In the forward market, foreign currencies are bought and sold for delivery in the future, usually in one month's or three months' time. The idea of using the forward market can be illustrated by the following example:

- An importer expects delivery of goods from the United States of America, and the supplier from the United States must be paid in three months' time. The United States dollar may appreciate in relation to the local currency and the importer may have to pay more in terms of local currency. Therefore, the importer buys a three-month US$ forward contract at a pre determined exchange rate and locks into a known exchange rate.

The benefit of having a forward contract is that the importer will know with certainty the cost of the imported goods in terms of the local currency. This is even more important if the importer sells the goods in the domestic market in local currency within three months, purchases US$ according to the forward contract and remits the monies to the supplier in the United States.

2. Futures contracts

Futures contracts are promises to buy or deliver a certain quantity of a standardized commodity at a specific date. Unlike forward contracts, which are tailored contracts between banks and their customers, future contracts are standardized instruments that are traded in futures markets. In such markets, the term "commodity" includes a wide variety of financial futures such as treasury bills, foreign currencies, stock indexes, and interest rate indexes. It also includes basic commodities like pork bellies, soybeans, grains, and ferrous metals.

Dealers in established futures markets trade future contracts. Market forces set the prices of these contracts. Trades in future contracts are matched in established markets. There are currently several such trading centers, usually specializing in either commodities or financial futures or both. Refer to figure 22.

Futures markets allow individuals and enterprises a means to hedge against price uncertainty. Commodity futures markets are of particular interest to Central Asian economies as a means to hedge against price fluctuations.

Hedging involves the simultaneous purchase and sale of two assets in the expectation of a gain from different movements in prices of those assets. This can be illustrated by the following example:

- In November 1999, a farmer agreed to sell a bushel of soybeans for delivery in three months time, February 2000 at US$ 5.80 per bushel. The question is whether the spot price in February 2000 will be higher or lower than the fixed price of US$ 5.80. Therefore, the farmer can hedge the price by buying a three-month futures contract with the price fixed at US$ 5.80 per bushel.

If the spot price for soybeans in February 2000 rises to US$ 6.20, the farmer will lose, as he agreed to sell at US$ 5.80, but he makes the difference on his futures contract, which he sells immediately. If the February spot price falls to less US$ 5.80, the farmer profits on his delivery but loses on his futures contract.

H. Export packaging, costing, pricing and legal issues

The significance of export packaging is related to two important issues: (a) export packaging as a marketing tool and (b) export packaging and its environmental impact.

1. Export packaging as a marketing tool

Over the last ten years, companies in many countries have become more aware of the importance of packaging as a marketing tool. During the 1960s and 1970s, attention focused on maximizing production volumes, with almost no emphasis on packaging of the products. Goods were mainly shipped in bulk to

Figure 22. Some major world futures markets

Chicago Board Options Exchange (CBOE) –This exchange, founded in 1973, revolutionized options trading by creating standardized, listed stock options.

London International Futures and Options Exchange - Offers the widest choice of products of any exchange, with futures and options contracts denominated in four major currencies (euro, pound sterling, Swiss franc and yen) across bond, money market, swap, equity, equity index and commodity asset classes.

London Metal Exchange (LME) - Trades in non-ferrous metals like copper, lead, zinc, nickel, and tin.

Minneapolis Grain Exchange - This futures market deals in grains and seafood. It allows farmers, processors, and merchants to buy and sell grain that, in some cases, has not even been planted yet.

New York Cotton Exchange - Cotton futures were launched in 1870, and cotton futures options were introduced in 1984, after a ban on agricultural options was lifted by the United States government. Today, the Exchange is the premier marketplace for cotton futures and futures options trading.

PAKISTAN EPB – Provides a centralized and regulated marketplace for commodity futures to be traded in PAKISTAN. This has paved the way for PAKISTAN to become a commodity futures trading center, complementing its international trading activities.

The PAKISTAN Trade Development Board is the regulatory authority of the Exchange and ensures that the best interests of its members and market participants are safeguarded.

the importer or retailer. The retailers were responsible for developing the packaging required to make a product ready for the market. By the late 1970s, practices began to change rapidly, for the following reasons:

(a) The high cost to design, develop and produce packaging became a more significant factorfor maintaining leadership in the export market, which made it increasingly necessary to find local sources of packaging services.

(b) The high cost of handling and packaging products in a foreign market meant that it was necessary to put the product into a "retail-friendly" condition before it left the factory. Importers would be able to ship goods immediately and avoid spending additional time and labor costs for handling and repackaging. The United States of America, the United Kingdom, and Germany were some of the first importing countries to encourage such changes.

(c) Some manufacturers expanded and increased their size to the point where they no longer needed to work through importers. In addition, larger retailers in the importing countries experienced growing pressure to lower retail prices in order to increase the volume of sales. Manufacturers had to take on some functions previously performed by the importer, such as development of suitable retail packaging.

(d) Increased consumer awareness of environmental implications resulted in demands for bio-degradable and environmental-friendly packaging.

These changes gave rise to a new set of industries and services in exporting countries. Hong Kong, China is an example of a place where various organizations, including the PFAET, responded to the new challenges of packaging for export. Training and seminars were given to manufacturers in Hong Kong, China. Academic institutions and PFAETsuch as the Hong Kong Trade Development Council opened courses and training related to packaging.

Packaging design houses emerged with photographers, graphic artists, and copywriters. In addition, manufacturers of packaging offered more sophisticated services to their customers. Design competitions were organized in Hong Kong, China to encourage talented designers. Government authorities gave strong encouragement to help this new industry evolve. Manufacturers became more aware of social and cultural sensitivities in different export markets for their products as a result of doing their own packaging.

Two examples of the need for flexible marketing and packaging for a product sold in Western Europe, the United States and other markets is described in figure 23.

Figure 23. The need for flexible marketing and packaging

Example 1.

Herald Marketing manufactures aluminium cookware and the normal packaging for a set of cookware features a four-color photograph of the cookware set with food neatly placed in one of the frying pans. When the company sold in the United States or Western Europe, the food photographed in the frying pan would be a piece of meat. However, if the frying pan were sold in South and Southwest Asia, it would not be appropriate to show a photograph with meat because of religious laws or cultural practices. This shows how export packaging and sales could be affected by social, cultural or religious factors in different export markets that come into play in the development of export packaging.

Example 2.

In the United States of America, there is great emphasis on providing the maximum amount of product for the price. When a set of cookware is presented in the United States, it is counted as seven pieces (four pans and three covers). In comparison, a set of cookware in the United Kingdom that actually has more pieces is referred to as a five-piece cookware set.

The US 7-piece set cookware set:	The British 5-piece cookware set:
10-inch open frying pan	14 cm milk pan
1 quart saucepan with cover	16 cm saucepan
2 quart saucepan with cover	18 cm saucepan

5 quart Dutch oven with cover

20 cm saucepan

24 cm frying pan

The examples show how the manufacturer in the exporting country must be aware of unique factors that will influence packaging and sales in each market.

Another important factor in determining the type of export packaging is known as the "planogram." Today, all of the large mass merchandisers in countries like the United States of America work according to planogram. Store layouts done according to a floor plan and the space for products on a shelf is determined by the product category. This makes package design requirements important.

For example, a specific amount of shelf space is allocated for cookware products. It is the responsibility of the cookware sellers to determine which products will create the maximum number of sales per square foot of shelf space. This will have an impact on the type of packaging used, because the manufacturer must find creative ways to optimize shelf space.

Manufacturers from exporting countries have become aware of space limitations at the retail level in many importing countries. This provides packaging challenges for competitive manufacturers.

2. Export packaging and its environmental impact

One of the most dramatic developments in packaging has been the increased awareness of environmental implications. One example is the environmental destruction caused by the use of chlorofluorocarbons (CFCs) and the use of toxic materials. Governments around the world are using legislation to stop the environmental damage.

Germany, for example, has structured its laws to address environmental concerns with emphasis on the 3R's: Reduce, Re- use, and Recycle. The idea is to use only essential packaging, thus minimizing the amount of packaging used. Moreover, certain packaging materials have been banned. Polystyrene has generally been replaced by molded cardboard (preferably made of recycled paper). PE (polyethylene) or PP (polypropylene) is used to make bags, as they are considered environmentally friendly. German law now allows the consumer to remove the packaging from the product after it is paid for and allows the retailer to take responsibility for the safe disposal of the packaging.

Germany's packaging regulations have the following objectives:

- to eliminate packaging whenever possible
- to avoid the use of plastic material whenever possible
- to reduce packaging dimensions as far as technically feasible
- to avoid composite packing (that is, mixing plastic with paper), and when this is unavoidable, make the packaging so it can be separated
- to promote use of packaging that can be returned or recycled

3. The Green Dot

Germany has also developed the "Grüner Pünkt" or "The Green Dot." Almost all products sold in Germany will eventually have this green dot on their packaging. The green dot is the property of a German company which awards use of the green dot to companies that:

- use PE or PP in their bags
- use molded cardboard as a replacement for polystyrene
- make material separation easy
- clearly designate all plastics
- prohibit all toxic colored printing inks (that is, heavy- metal compounds used in coloring

About 400 companies are members of Duales System Deutschland Gmbh, the owners of the "Green Dot." These companies are involved in trade, consumer distribution, packaging, manufacturing and material supply. The German business establishment is firmly behind this approach.

4. PFAET's role in providing assistance for packaging

The most important assistance a PFAET can provide for packaging is information to help improve the overall quality design of packaging. Inadequate packaging is one of the key obstacles to increasing exports. The PFAET can inform new exporters about international packaging requirements by:

(a) proposing ways to adapt export packages and labels to conform with international trade requirements,

(b) developing structural designs and graphic design layouts for export packages,

(c) helping local exporters and packaging suppliers to increase their expertise in packaging technology and promotional design packaging,

(d) giving technical advice on the use of better packaging materials and the choice of suppliers for these materials.

The PFAET may hire the services of a packaging expert or specialist. The specialist is responsible for providing or securing assistance in:

(a) identifying supply sources for labels and export packages, both at home and abroad, and gathering information on the types of materials available locally or internationally, prices, size of minimum and maximum orders, delivery conditions and possibilities for adaptation;

(b) becoming familiar with the packaging and labeling requirements for important products in key markets;

(c) providing on-the-spot advice to exporters who face problems in adapting their export packages and labels to the requirements of foreign buyers and markets;

(d) giving technical advice on the use of better packaging materials and guiding exporters to the suppliers of these materials;

(e) initiating, where possible, development of structural design prototypes and graphic design layouts for export packages and labels;

(f) participating in workshops and seminars about products for which the packaging is important, in order to raise the level of expertise of local exporters and packaging suppliers in packaging technology.

THE PFAET staff member's help companies improve the overall quality and design of their packages. The PFAET also encourage and help packaging institutions in:

(a) maintaining comprehensive documentation and information services on export-related packaging technology and promotional design of packaging;

(b) organizing design competitions to encourage talented designers;

(c) conducting tests to determine that export packages comply with national and international packaging standards and specifications;

(d) reviewing and advising on export packaging problems.

5. Costing and pricing

A study by ITC found that assistance in costing and pricing of export products was provided by only about half . This was despite the fact that many exporters require support and training to create pricing strategies that will make them competitive in world markets.

The objectives of The PFAET when giving assistance in costing and pricing are to:

- strengthen the competitive position of export products
- provide technical support to exporting enterprises through the use of sound cost accounting principles
- establish a sound export pricing strategy that maximizes benefits to firms over the long term

The competitive position of export products can be improved significantly when exporters keep tight control over their costs and know where cost-cutting or reductions can be made. Exporters have a better chance for long-term viability, rather than short-term success, by adopting a sound export pricing strategy.

A specialist is often assigned by the PFAET to help exporters in the following crucial areas of costing and pricing operations:

(a) Disseminatinginformation about sound cost accounting principles for export products by organizing and participating in workshops and seminars designed to strengthen the skills of exporters in determining export costs and control and use of cost information for planning and decision making.

(b) Providing advisory services to public and private enterprises on the cost of export products, their relative competitiveness in foreign markets and the way to examine the cost structures.

(c) Identifying chartered accounting firms and consultants who can be recommended to establish a cost-effective accounting system that can help monitor and control export product costs and assess the performance of firms' export activities.

(d) Providing on-the-spot advice to exporters and manufacturers about using their competitive edge to maximize their benefits, reduce their costs and assess potential products that could penetrate and compete in foreign markets.

(e) Providing training to strengthen the skills of exporters to build effective frameworks for export pricing by considering their enterprise objectives, analyzing export market conditions, determining controllable and independent pricing factors and pricing alternatives. The export pricing framework is used to set the delivery terms. The pricing policy will reflect the difference between prices for the local market and for exports.

(f) Giving advisory services to help prepare the export sheet calculations that can be used as reference points by exporters in the determination of the profit margin for an export order.

6. Legal issues

About 40 per cent of PFAETin developing countries provide legal services, at least to a limited extent. This percentage is somewhat higher for PFAETs in developed countries.

Exporters must be aware of the legal implications in documents related to external transactions, because the legalities of selling domestically are different from selling abroad. Exporters can avoid actions that could jeopardize their present and future export marketing efforts by becoming familiar with legal issues.

THE PFAET's technical assistance on legal matters should aim at providing guidance on legal aspects of commercial contracts in order to (a) help avoid conflicts and (b) help resolve conflicts, if they do arise.

A programme of seminars and lectures for the export community can help bring attention to the importance of defining sales terms clearly and the need to comply exactly with these terms.

7. Handling controversy

At times, The PFAET may decide to take an active role in handling controversiesor disputes between exporters and customers. Such a task should be given to a specialist who should:

- examine cases to determine whether the problem can be solved by negotiation between the two parties
- recommend, in more serious situations, courses of action to follow and the services of qualified law firms
- use arbitration to settle disputes or submit them to independent arbitrators acceptable to both parties

The PFAET may need to hire a full-time staff member responsible for legal advisory services on export matters and ensure that legal commitments are followed. Certain staff members, such as the export advisory staff, can provide advice on courses of action to follow in particular cases and recommend external legal specialists who can provide the required legal assistance.

8. Trade management training

When countries that were formerly centrally-planned open their economies, foreign business people interested in trading and investing are attracted. Unfortunately, many of these countries arenot ready, particularly because their government bureaucracies and private sectors do not have the appropriate experience and expertise to deal with foreign companies. This has created impediments to trade and business deals, such as unwieldy bureaucratic controls, lack of understanding about international business conventions, inability to conform to international standards, lack of information or market research and inability to meet shipment dates. If not corrected, these issues can result in a negative image for countries.

THE PFAET can organize and conduct training in trade-related subjects like import/export procedures, risk hedging and trade financing, which will enable traders to better understand international business requirements. PFAETs, especially in countries new to exporting, should take a proactive approach in developing training infrastructure. THE PFAET can develop a training institute either on its own or jointly with the private sector. It should also encourage industries to set up their own internal training programmes. These programmes could also be offered to government officials to give them an understanding of international business practices.

The first step for PFAET before undertaking any development of training programmes is to identify the training needs of the exporting community. Having identified these needs, the PFAET, together with relevant private sector associations, develops appropriate training strategies for the short and medium terms.

Timely seminars and conferences on world-wide developments in trade and industry are also important as a means to educate and update the exporting community on world trends. Workshops on the technical standards and trade policies of trading partners are also useful. Therefore, PFAET needs to include such mechanisms for building knowledge and human resources as part of their training strategy.