Chapter Three: Procuring U.S. Soybeans and Soy Products

One of the most important components of procuring soybeans is understanding the requirements of the end user and articulating that information to the seller. A buyer with a clear understanding of the end use requirements of the soy product will be able to more clearly express all the various quality and delivery characteristics required and determine the best financing options available. In return, the seller will take the request for bid seriously and provide proposals that fulfill the buyer's criteria.

Finding a Supplier

There are many sources a buyer can access to locate the names of potential soybean and soybean product suppliers. As explained in Chapter 1, the cycle of production starts with the soybean farmer but all purchases of soybeans and soybean products are negotiated through a soybean processor or export company, except in the case of Identity-Preserved soybeans that are grown for a specific buyer or end-use.

When contacting a potential supplier for a price quote, a buyer must be prepared to provide the following information:

- Contact Information (name/title/business/country/address/phone/fax/e-mail)
- Type of buyer (examples: merchandising company, broker, feed manufacturer, industrial further processor, government buying agency, etc.)
- Quantity (specific metric ton requirement)
- Quality and specifications desired (be specific)
- Shipment details (FOB, CIF, port of shipment/destination, etc.)
- Date bids due and delivery (shipment) period
- Financing/credit considerations (examples: user of U.S. government credit programs, private financing, specific financial needs)
- U.S. and international bank references

The following entities can assist buyers with contact information for soybean suppliers.

U.S. Soybean Export Council (USSEC)
A private, non-profit organization, the USSEC works to develop and expand markets for U.S. soybeans and soybean products worldwide. Based in St. Louis, the USSEC, recognized internationally as the American Soybean Association-International Marketing, works in more than 80 countries served by nine worldwide offices. A listing of suppliers is available on the USSEC website:
http://www.ussoyexports.org.

National Oilseed Processors Association (NOPA)
NOPA represents thirteen regular member firms engaged in the actual processing of oilseeds, and twelve associate member firms that are consumers of vegetable oil or oilseed meal, including some refiners and mixed feed manufacturers. A listing of their members is available at: http://www.nopa.org.

North American Export Grain Association (NAEGA)
NAEGA is a trade association with members consisting of private and publicly owned companies and farmer-owned cooperatives that are involved in and provide services to the bulk grain and oilseed exporting industry. NAEGA members can be contacted by completing the Trade Lead Form available at: http://www.naega.org.

U.S. Agricultural Attaches and Commercial Officers
The U.S. Embassy or consular office in most countries contains an agricultural attaché or commercial officer who is the overseas representative of the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA). The agricultural attaché can offer the local buyer a broad range of information regarding U.S. government-assisted export programs as well as assistance in finding U.S. suppliers of soybeans and soybean products. Locations of the overseas posts are available on the USDA-FAS website: http://www.fas.usda.gov.

USDA-Foreign Agricultural Services (USDA-FAS)
The USDA-FAS is another good source of information for potential buyers of U.S. soybeans and soybean products. The USDA-FAS website, http://www.fas.usda.gov, provides both exporter and importer assistance, trade leads, information about export credit programs, data about the U.S. and world soybean market and much more.

Soya and Oilseed Bluebook
Another excellent source of information is the "Soya and Oilseed Bluebook," published by Soyatech, Inc. This annual directory contains names and contact information for more than 3,000 companies worldwide that provide products, services, equipment or technology for the soybean industry. More information on this resource can be found at http://www.soyatech.com/.

Negotiating a Purchase

After establishing contacts and assembling potential U.S. soybean product suppliers, the buyer will either seek offers through direct, private negotiations or through a more public and formal invitation for bids (IFB). Most exports of U.S. soybeans are arranged between private commercial entities, however the IFB is commonly used among soybean processing associations and government entities in some Asian countries. Entities using the IFB method of procurement almost always buy the least expensive offer from those presented with no negotiation. Direct negotiation allows the seller to suggest alternatives or options to the buyer that may significantly reduce the buyer's purchase price.

Regardless of the method of negotiation used in the procurement process, standard form contracts are a part of any U.S. export transaction. Potential buyers should become familiar with these contracts and understand them thoroughly before initiating any discussions with potential trading partners.

Following are important aspects of any transaction involving the export/import of U.S. soybeans on which the buyer and seller must agree and must therefore be included in the contract of purchase and sale:

- The legal identity and address of the buyer and seller.
- Identification of the commodity (e.g. U.S. soybeans) contracted for, including the minimum U.S. numerical grade and class.
- Any minimum or maximum quality specifications that deviate from or are not included in the U.S. standard for the numerical grade and class

- When, where and by whom is the quality to be determined. In most cases, it will be the official U.S. grade rendered by a licensed inspector at the time and place of loading.

- The quantity to be delivered, identifying any tolerance allowed and at whose option.

- Who determines what quantity has actually been loaded, as well as where and when that determination is to be made. The quantity is normally determined by using official U.S. weights determined by a licensed inspector at loading.

- The shipping period. This is the specific time frame in which the buyer can tender a vessel to load; alternatively, if the seller is providing ocean freight, during what period of time must loading of the freight take place. If it is to be the seller's freight, the minimum number of days of pre-advice of the vessel's impending arrival at the load port, often called "loading notice," required from the buyer.

- The method of delivery.
  - √ FAS (Free Alongside Ship...named port of shipment)--Under this term, the seller quotes a price for goods that includes charges for delivery of the goods alongside a vessel at the port. The seller handles the cost of unloading and wharfage; loading, ocean transportation, and insurance costs are left to the buyer.

  - √ FOB (Free on Board...named port of shipment)--Under this term, the seller quotes a price for goods that includes the cost of loading onto the transport vessel at the designated point. Ocean transportation and insurance are left to the buyer's account.

  - √ CFR or C&F (Cost and Freight...named port of destination)-- For shipments to designated overseas port of import, the seller quotes a price for the goods that includes the cost of transportation to the named point of debarkation. The buyer is responsible for the cost of insurance. The cost of unloading cargo at the port of destination is paid for by the seller, to the extent that they are included in the freight charges. If the charges are separate then they fall to the account of the buyer.

  - √ CIF (Cost, Insurance, Freight)--Under this term, for shipments to designated overseas port of import, the seller quotes a price for the goods, including insurance costs and all transportation and miscellaneous charges, to the point of debarkation from the vessel or aircraft. The seller pays for the cost of unloading cargo at the port of destination to the extent that they are included in the freight charges. If the charges are separate then they fall to the account of the buyer.

- Determine who is responsible for the cost of stowing and trimming the cargo onboard the vessel once the commodity leaves the loading spout.

- Determine the time when the soybeans or soy products pass from the seller to the buyer.

- Determine the price, including the currency of the payment. The price should be expressed in an exact amount per metric ton, per bushel, per

kilo or any other agreed measurement of the quantity. A price per metric ton is the most commonly used measurement. If by mutual agreement, the price is not fixed when the buy/sell agreement is reached, it must be clearly specified as to how and when the price is to be fixed.

- Payment terms, including:
  - √ When and how payment is to be made,
  - √ What documents are required of the seller (i.e. commercial invoice, grade certificate, weight certificate, phytosanitary certificate, bill of lading, certification of origin, etc.)?
  - √ Where and to whom the documents are to be presented.

  Payment terms can vary based on the seller's previous experience with the buyer, plus the buyer's financial standing and creditworthiness. For a buyer of good standing and worthy credit, payment is often made by wire or electronic transfer of funds directly from the buyer's bank to the seller's bank upon the seller's presentation of proper loading documents. This is the fastest method of payment.

  Payment is also made by an irrevocable letter of credit (L/C) in favor of the seller. The L/C is opened and confirmed, normally by a U.S. bank or another first class bank outside the U.S., at the instructions of the purchaser prior to loading the vessel. (When a bank opens this type of L/C, it cannot be canceled without seller's approval.) When the bank confirms the L/C, it fully assumes the obligation of paying the seller against presentation of the required documents. Thus, any risk of non-payment is shifted from the buyer to a bank that presumably is very capable of providing the necessary funds to the seller. This form of payment carries the least amount of risk for the seller. Buyers need be aware that sellers will estimate the length of time between loading and payment and will include interest on the cargo's value accordingly in the price they seek during negotiation.

- Development of a clause outlining how contractual disputes between the buyer and the seller is to be settled. Most frequently, this is by arbitration that is usually conducted under the rules and practices of a specified, independent third party experienced in conducting arbitrations over trade disputes. In rare cases, disputes are referred to courts in the form of a legal action taken by one party against the other. In such cases, the court of jurisdiction and the applicable laws or commercial codes should be named.

Standard Contract Forms

Standard contract forms have been developed that can ease the burden of creating a lengthy and complex contract for buying and selling commodities internationally. These forms define contract terms using standard language that is likely to be included in any contract.

The principal contract form used for bulk grains and oilseeds, including soybeans and soybean meal, sold FOB through North American ports was created by the North American Export Grain Association and is known worldwide as NAEGA II. Any purchase of U.S. soybeans and soybean products will most likely use this contract form and thus the terms it defines.

For a copy of the current NAEGA II contract and addendums, please contact:

NAEGA
1250 I St., N.W., Suite 1003
Washington, D.C. 20005-3922
USA
Tel: 202 682-4030
Fax: 202 682-4033
Email: info@naega.org
Website: http://www.naega.org/

If an importer purchases soybeans on a C and F or CIF basis delivered to its port of choice, the most commonly used contract form was developed by the Grain and Feed Trade Association (GAFTA), an association of importers and exporters and other related parties headquartered in London. The two commonly used forms for bulk grains, soybeans and soybean meal, bought and sold with ocean freight to be supplied by the seller are the GAFTA 27, which is the form used for full cargoes, and GAFTA 30, which is used for quantities that are less than full cargoes (usually called parcels).

For more information on these contracts, please contact:

GAFTA
GAFTA House, 6 Chapel Place
Rivington Street
London EC2A 3SH, England
Tel: +44 20 7814 9666
Fax: +44 20 7814 8383
Website: www.gafta.com

The Federation of Oils, Seeds, and Fats Associations (FOSFA), also located in London, is the creator of the most commonly used contract forms used for bulk edible oils such as soybean oil. FOSFA 53 covers FOB sales terms, while FOSFA 54 covers CIF or C and F sales. Many of the FOSFA terms are similar to those found in NAEGA 2 and the GAFTA contract forms, but there are a number of terms pertinent to bulk edible liquid transactions.

For more information, please contact:

FOSFA International
20 St. Dunstan's Hill
London EC3R 8HL, England
Tel: +44 (0)20 7283 5511
Fax: +44 (0)20 7623 1310
E-mail: contact@fosfa.com
Website: www.fosfa.com

Potential importers of U.S. soybeans or soybean products should obtain copies of these contract forms and become familiar with their terms, as they were developed using commercial experience and contain the customs of the trade.

Since these forms are rather lengthy, it is common practice for the buyer and the seller to create a short contract form containing the variable elements of their transaction and include the appropriate contract simply by reference. A phrase such as "all other terms and conditions of the contract in accordance with NAEGA II," thereby creating what is effectively a NAEGA II contract, but with much less paperwork.

It is important for buyers to recognize that any standard contract form can be changed if both the buyer and seller agree to do so, and a new contract can be made. The purpose of the forms is convenience and it is up to the buyer and seller whether to use them.

Financing a Purchase of U.S. Soybeans

Letter of Credit

The most commonly used method of payment for international grain transactions is the letter of credit, a method that comes with a range of options. The letter of credit, (L/C or LC) is a written commitment by a bank to make payment at sight of a defined amount of money to a beneficiary (exporter) according to the terms and conditions specified by the applicant. The letter of credit should set a time limit for completion and specify which documents are needed to confirm the transaction's fulfillment.

There are four parties formally involved in the collection of payment using an L/C:

Applicant — The applicant (buyer) applies to its bank for the issuance of an L/C. The applicant must have a credit relationship with the issuing bank or pay cash.

Applicant's bank — The applicant's bank, or issuing bank, issues the L/C. The applicant's bank verifies that all documents comply with the terms and conditions of the L/C, and pays the seller.

Beneficiary's bank — The beneficiary's bank can act as an advising bank and/or confirming bank. An advising bank is the beneficiary's bank in the U.S. It verifies that the L/C is authentic and notifies the beneficiary of its receipt. The advising bank also receives the documents from the beneficiary and forwards them on to the issuing bank. However, the advising bank has no liability for payment of the L/C.

At the beneficiary's request, an advising bank can add its confirmation to the L/C. This means that the confirming bank adds its promise to pay the beneficiary for documents presented in compliance with the terms and conditions of the L/C. The confirming bank charges a fee for this service, based on its perception of the credit risk of the issuing bank. The beneficiary would request this service if it feels that there is a risk of not receiving payment from the issuing bank, due to country or bank risk issues.

Beneficiary — The seller is called the beneficiary. The beneficiary is responsible for the collection, presentation, and accuracy of the documents required by the L/C.

A confirmed irrevocable L/C follows these steps:

1. After the terms of sale have been agreed upon, the buyer/applicant arranges for its bank to open an L/C.
2. The applicant's bank prepares an irrevocable L/C that includes shipping instructions.
3. The issuing bank sends the L/C to a U.S. bank, requesting confirmation.
4. The confirming bank in the U.S. prepares a letter of confirmation and delivers it to the beneficiary along with the irrevocable L/C.
5. The exporter/beneficiary, and the beneficiary's bank and freight forwarder, carefully review the L/C. The beneficiary verifies with its freight forwarder that the shipping dates can be met. If any of the terms or conditions in the L/C cannot be met, the beneficiary contacts the buyer/applicant immediately.
6. The exporter makes arrangements with the freight forwarder for the goods to be delivered to the port or airport.
7. Once the terms of the L/C have been met, the freight forwarder completes the documents required by the L/C.
8. The beneficiary or freight forwarder presents the required documents to the confirming bank.
9. The confirming bank reviews the documents. If the documents are in order and fully comply with the L/C, the confirming bank forwards them to the issuing bank for review and transmittal to the buyer/applicant.
10. The buyer/applicant, or its customs broker, receives from the issuing bank the documents necessary to claim title to the goods.
11. The confirming bank pays the beneficiary as specified in the L/C.

For more information on L/Cs, consult a qualified international banker.

U.S. Export Guarantee Programs

The U.S. Department of Agriculture (USDA) has programs that can be used to finance purchases of U.S. agricultural commodities. Generally, these programs are used when buyers deemed by USDA to be creditworthy are unable to access credit at competitive terms from other sources. Buyers wishing to utilize these programs should first check whether the program is operable in the importing country and the remaining dollar allocation available for soybean products. This information is available on the USDA-Foreign Agriculture Service, Export Credit Guarantee Programs website http://www.fas.usda.gov/excredits/.

The following gives a brief description of the programs for which there is current legislative authority:

GSM-102: Under this program, USDA supplies credit guarantees to U.S. exporters to promote exports of designated U.S. commodities to specified destinations. The credits are usually at interest rates that otherwise would not be available to importers in the specified country. GSM-102 provides for credit terms between six months and three years.

USDA negotiates with a foreign government the specific type and amount of credit facility involved, as well as the commodities it can cover, with limited dollar amounts for each commodity. Then the Commodity Credit Corporation (CCC), an operating arm of USDA, negotiates credit lines with specific

banks in the recipient country that it considers risk worthy or alternatively, the country's central bank (which is the government in most recipient countries) must provide a Credit Guarantee Assurance (CGA) that effectively guarantees payment to CCC.

When these arrangements are in place and credit guarantees are operable, the buyer and seller then make an agreement on the terms and conditions of a purchase. When this is completed, the exporter applies to CCC for a credit guarantee, usually for 98 percent of the sale value. When CCC issues a guarantee commitment to the exporter, it ill assign the guarantee to a U.S. commercial bank. This effectively makes the transaction risk free for the seller, who will receive payment under an L/C.

Meanwhile, the buyer opens an L/C through one of the approved local banks in favor of the seller and advised by the U.S. bank holding the assigned credit guarantee. The L/C usually provides that the buyer make periodic repayments of principal and interest in U.S. funds, usually every six months.

Supplier Credit Guarantee Program: This program involves direct credit supplied by the seller to the importer of U.S. soybeans for which the exporter receives a guarantee for 65 percent of the value from CCC and assumes 35 percent of the risk as well. The term is usually 180 days or less. The CCC can require the exporter to produce evidence that the importer is credit worthy and this may constrain some potential buyers.

In recent years, the use of CCC credit programs has declined, partially because they have not been necessary to export U.S. soybeans and products and partially because CCC's standards for creditworthiness have tightened. For the latest information on credit program details, refer to the USDA-Foreign Agricultural Service website, http://www.fas.usda.gov/excredits/.

Export/Import Bank

The Export-Import Bank of the United States (Ex-Im Bank) is the official export credit agency of the United States. Ex-Im Bank's mission is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank does not compete with private sector lenders but provides export financing products that fill gaps in trade financing. They assume credit and country risks that the private sector is unable or unwilling to accept. Ex-Im also help to level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. For more information refer to their website: http://www.exim.gov/

Commercial Credit

Large U.S soybean buyers of good standing may be able to arrange private credit from their suppliers or their local banks ranging from outright loans, deferred payment invoices, discounted invoices and a variety of other mechanisms. However, these options are likely to have higher interest rates. In addition, commercial lenders are reluctant to extend credit for six to 12 months on imported U.S. soybeans that will be consumed in 90 days or less.