Financing U.S. Grains Imports

International grain transactions present both the exporter and importer with a variety of risks that must be handled and minimized to better facilitate the transaction.

A major business risk to the importer is the performance of the exporter - will the grain purchased meet the contract quality and quantity specifications, and will the grain be shipped on time? The exporter also faces a similar performance risk - will the importer provide the proper shipment mode in a timely manner (in case of an FOB transaction), and/or will the goods be discharged quickly (in a CNF transaction) without problems arising from political upheaval or changing import regulations?

However, arguably the greatest risk the exporter faces is the payment risk. This risk can surface in many forms - the importer's non-acceptance of the grain at destination due to quality complaints, or the importer's default due to changing market conditions or lack of foreign exchange. The larger the payment risk is to the exporter, the greater the risk "premium" the importer will pay as part of his purchase price.

The payment risk is handled with a number of different payment options, each reflecting varying levels of payment risk control. This chapter will help the importer to identify the various payment options, specify when and why a payment option is used, explain how each payment method operates and identify the advantages and disadvantages each payment option presents the importer.

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. In addition, this chapter will look at open account transactions, the cash against documents payment form, the barter (countertrade) method and other lesser used payment options.
A contract between an importer and an exporter may call for payment under a letter of credit, often abbreviated as L/C or LC. A letter of credit 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 importer (applicant). The letter of credit should set a time limit for completion and specify which documents are needed to confirm the transaction's fulfillment.

More properly called a documentary letter of credit, it is important to remember that a letter of credit is an additional contract dealing with credit between the applicant (importer) and the issuing bank and is separate from the original grain contract.

Proper letters of credit have the following basic components:

**Applicant:** The party applying for the letter of credit, usually the importer in a grain transaction.

**The Issuing Bank:** The bank that issues the letter of credit and assumes the obligation to make payment to the beneficiary, usually the exporter.

**Beneficiary:** The party in whose favor the letter of credit is issued, usually the exporter in a grain transaction.

**Amount:** The sum of money, usually expressed as a maximum amount, of the credit defined in a specific currency.

**Terms:** The requirements, including documents that must be met for the collection of the credit.

**Expiry:** The final date for the beneficiary to present against the credit.

These are the necessary components of any letter of credit for the credit to become a valid, operable instrument. In addition, letters of credit come in various forms that define their level of risk. A revocable letter of credit allows the issuing bank (at the applicant's request) to amend or cancel the credit at any time without the approval of the exporter (beneficiary) and is the most risky form. In contrast, an irrevocable letter of credit has terms and conditions that cannot be amended or changed without the expressed consent of all parties, the issuing bank, the exporter (beneficiary) and the importer (applicant). Finally, the addition of a commitment by a bank other
than the issuing bank to irrevocably honor the payment of the credit, provided the exporter meets the terms and conditions of the credit, results in a confirmed irrevocable letter of credit.

**HOW DOES A LETTER OF CREDIT WORK?**

Once the exporter and importer have concluded a transaction that calls for payment under some form of letter of credit, the importer makes an application for the credit to the bank, either locally or in another country, that will issue the credit.

The importer/applicant will give the issuing bank instructions that cover such items as:

- The full, correct name, address and contact information of the beneficiary, usually the exporter.
- A brief description of the grain involved, including the quantity, quality and unit price.
- The method, place and form of shipment, the location of the final destination and other shipping issues including transhipment, partial shipment and the latest shipping date.
- The full, correct description of the documents required, including the period of time after the documents are issued within which they must be presented for payment. In addition, the credit should specify if payment is to be immediate (at sight) or with some degree of deferment (i.e., four days after acceptance).
- Details of the letter of credit itself, including the amount (usually expressed as a maximum), the expiry date, how the credit will be made available and the transferability of the credit.
- The type of credit, the revocable credit, the irrevocable credit or the confirmed irrevocable letter of credit.

Upon the issuing bank’s approval of the credit application, the letter of credit is usually advised to the exporter; that is, the bank makes the exporter (beneficiary) aware that a letter of credit is opened.

The advising is often done by a bank other than the issuing bank, and this second bank may also confirm the credit. Once the importer and exporter are satisfied that the credit is operable, the exporter ships against the original grain contract and presents the required documents and a draft (the instrument by which the exporter directs
the importer to make payment) to the confirming, correspondent or issuing bank, as the case may be. Upon checking the documents for accuracy, the bank(s) passes the documents onto the importer and makes payment against the draft to the exporter.

WHAT ARE THE ADVANTAGES/DISADVANTAGES OF LETTERS OF CREDIT?

The confirmed, irrevocable documentary letter of credit payable at sight is the most commonly used type of letter of credit in international grain transactions. This credit presents the exporter with the least risk. Generally, the importer bears the cost of opening the letter of credit. The cost of confirming the letter of credit is an item of negotiation in the original grain contract. As risk and cost are inversely related, letters of credit present the importer with the highest cost payment option. In addition, the existence of a letter of credit does not obligate the exporter to ship the grain purchased by the importer. However, due to the substitution of a first-class commercial bank's credit for that of the importer's, the exporter's payment risk premium is greatly reduced and the resulting price to the importer usually reflects no risk premium.

Under payment against documents, the exporter instructs his bank through a collection letter to forward a draft and the original shipping documents to the importer's bank for payment. The collection letter contains complete and precise payment instructions to be followed by the importer's bank, including the timing of the release of the shipping documents.

The release of the documents is either on a cash against documents (cad) basis or on a documents against acceptance (d/a) basis. Payment under a cad arrangement is at sight, while payment under a d/a arrangement utilizes a time draft.

HOW DOES PAYMENT AGAINST DOCUMENTS WORK?

Under the original grain contract, the exporter makes shipment and sends the shipping documents to the exporter's bank for collection. The exporter's bank then sends the shipping documents, along with a collection letter, to the importer's bank, which then sends a collection notice to the importer. The importer either makes payment upon receiving the notice at sight and prior to possessing the shipping documents; makes a cash against documents
arrangement; or the importer accepts a time draft obligating the importer to pay at a future date (a documents against acceptance arrangement). Only after payment or acceptance does the importer receive the original shipping documents.

**WHAT ARE THE ADVANTAGES/DISADVANTAGES OF PAYMENT AGAINST DOCUMENTS?**

The major advantage of the use of a cash against documents payment is the low cost, versus using a letter of credit. Also, the exporter can receive full payment prior to releasing control of the documents, although this is offset by the risk that the importer will for some reason reject the documents (or they will not be in order). Since the grain cargo would already be loaded (to generate the documents), the exporter has little recourse against the importer in cases of non-payment. A payment against documents arrangement involves a high level of trust between the exporter and the importer and should only be entered into between parties well-known to each other.

The oldest method of payment in international trade is the countertrade arrangement. The term covers a wide range of business arrangements where payment is received in forms other than cash.

**Countertrade**

The various types of business arrangements commonly called countertrade and used in the international grain trade can be divided into the following categories: barter, counterpurchase and compensation.

**WHEN AND WHY IS COUNTERTRADE USED?**

The use of countertrade arrangements by importers has increased recently, due in part to poor demand for some countries' large amounts of base commodities, the lack of or inconvertibility of local currencies and/or a desire to help stimulate or comply with regulations of importing countries' economies. Countertrade is most often used by importers operating in a planned economy.

Also, countertrade arrangements are complex, usually involving three or more separate contracts or protocols, often necessitating parties other than the importer and exporter, and call for additional payment and finance terms as part of the transaction. Great care should be exercised when utilizing a countertrade arrangement.
WHAT FORMS OF COUNTERTRADE EXIST? WHAT ARE THE ADVANTAGES/DISADVANTAGES OF EACH FORM?

**Barter:** This oldest form of countertrade involves the direct exchange of goods having equal or offsetting value with no exchange of cash between the two parties involved, the importer and the exporter. Barters are transaction specific and handled under one contract that calls for an exchange of specified goods - without assigning a value to them - within a short time period. The exchange of goods takes place directly between importer and exporter without the need for a third party, such as a bank.

The use of barter involves considerable risk to the exporter and the importer as goods are shipped and documents exchanged directly, often with one party executing an obligation prior to the other party taking an action. This risk can be reduced by the posting of standby bank letters of guarantee on behalf of the parties. While barter can be potentially advantageous to the importer, as the importer receives the commodity without any outlay of foreign exchange, not all exporters find the risk acceptable or have the expertise to handle the goods received from the importer.

**Counterpurchase:** This most frequently used form of countertrade involves the use of two separate contracts - the commodity sales contract between the exporter and the importer, and a separate, although technically related, contract between the importer and the exporter that obligates the exporter to buy a defined value of goods (or services) from the importer's country over a fixed time period. As opposed to barter, counterpurchase arrangements call for each transaction to be independent of the other. Thus, an exporter would ship grain to the importer and invoice for the commodity under a normal letter of credit, while the exporter might then arrange to handle a cargo of the importer country's goods, such as coffee, under a separate commitment to pay, thus satisfying the counterpurchase obligation. This may involve the need for a third party, such as the coffee exporter, in addition to the use of one or more commercial banks.

Since a counterpurchase arrangement is really two trade contracts, each with their own payment terms, instead of a single, standard grain contract, this form of countertrade is quite cumbersome and the transaction may not be completed for a period of months or years. An additional disadvantage is the need for the importer to utilize foreign exchange, although this is offset with the revenue
from the counterpurchase. Although it is cumbersome, counterpurchase trade appeals to many importing countries as a means of assuring a more positive trade balance, and many countries require its use in some form.

**Compensation:** This final type of countertrade involves payment for the imported commodity by the buyback of a resultant or related product. For example, an importer would pay for a shipment of corn with a previously agreed upon amount of compound feed. Like counterpurchase, compensation arrangements involve two separate, independent contracts and are usually tied to a long-term industrial development or facility. Once again, payment by the importer to the exporter normally is handled under a letter of credit or similar method.

While compensation has many of the same advantages and disadvantages as counterpurchase, compensation arrangements can help favorably influence a lending institution to provide financing for the establishment of a proposed industrial complex by providing the importer with a steady source of supply and a fixed buyer of output.

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**Consignment:** Under this method of payment, an exporter usually ships and stores grain in a bonded warehouse in the importer's country. While the commodity is consigned to the importer, the exporter retains title to the goods until local sales are made. Often under consignment arrangements, a private or government bonded warehouse company or commercial bank serves as "custodian" of the goods and handles the administrative details. As this type of payment arrangement involves a great deal of administrative and managerial time and effort, while also presenting the exporter with a high level of payment risk, most exporters enter into a consignment sale only with an overseas subsidiary, joint venture company or an importer very well-known to the exporter.

**Open Account:** While this payment term involves the fewest restrictions and the lowest cost for the importer, it also presents the exporter with the highest degree of payment risk and is only employed between an importer and an exporter who have a long-term relationship involving a great level of mutual trust. Upon shipment under the original export grain contract (usually on FOB terms), the exporter prepares the normal documents, such as bills of lading and original invoices, as well as weight and grade certificates. The exporter presents these to the importer directly, thus avoiding
the involvement of a commercial bank. The importer then pays the exporter directly, usually via wire transfer, upon receipt of the documents. Under an open account payment method, title to the grain passes from the exporter to the importer prior to payment and subjects the exporter to default risk. Furthermore, there is a time delay in payment, depending on how quickly documents are exchanged between exporter and importer.

**Cash in Advance:** This payment method is virtually the opposite of the open account option. The importer, after purchasing the commodity under the original grain contract, sends the exporter a cash advance or prepayment for either the entire shipment or a portion of the shipment. The exporter, upon receipt of the cash advance, makes shipment to the importer and provides all the necessary shipping documents. While this method of payment involves direct importer/exporter contact without direct commercial bank involvement and is therefore inexpensive, the importer faces a very high degree of payment risk under a cash in advance payment, while retaining little recourse against the exporter for poor quality goods or incorrect or incomplete documentation.

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**Finance Options and Methods**

In the simplest grain import transaction, the importer would purchase from the exporter the grain desired and, upon shipment of the cargo, would immediately make cash payment in full. However, some importers want (or need) to make payment at a later date or over an extended period. It is at these times that the importer needs to understand the various financing options available.

Just as the various options explored in the payment section present the exporter and importer with various levels of payment risk and ways to manage this risk, the different financing methods also address the risks presented by payment at a deferred time. The U.S. government, in recognition of the need to minimize payment risks to exporters and to facilitate grain exports, established the export credit guarantee program, commonly known as GSM-102, and the related intermediate export credit guarantee program, or GSM-103. These two programs - funded at over five billion U.S. dollars per year - are the major source of U.S. grain trade financing.

The confirmed irrevocable documentary letter of credit payable at sight is the most commonly used payment instrument. It is also the foundation for some common forms of import financing. This section analyzes various financing options, including the time of acceptance and deferred payment letters of credit, and the use of discounting and refinancing forms of financing grain imports.
GSM Financing

The U.S. government, understanding the need to provide credit financing to expand agricultural U.S. export markets, established the GSM-102 and GSM-103 programs. The GSM-102 program provides credit guarantees for three months to three years, while the GSM-103 program provides credit for three to ten years. The programs are designed to provide an exporter (or a party assigned by the exporter) a payment guarantee while supplying an importer with the necessary credit terms to make the purchase, and provide for the payment of 98 percent of the covered value and a certain portion of the interest in case of payment default.

These programs are administered by the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC). Importing countries are generally chosen to participate in the programs where the need for credit to establish or maintain a market is necessary and, most importantly, where the countries’ financial conditions allow for a reasonable expectation that payments against the credits will occur. Bulk commodities, such as feed grains, account for the greatest amount of financing dollars.

HOW DO GSM PROGRAMS WORK?

Country allocations, stated in a set dollar amount and commodity specific, are established annually through negotiation between a foreign government and the U.S. government, usually through USDA. The allocations are available to use for eligible export sales during the U.S. government fiscal year, which runs from October 1 to the following September 30. While contracts must be signed by September 30 of the fiscal year in which the allocation is made, shipment may occur up to December 31 for the previous fiscal year program.

With an allocation in place, an importer wishing to utilize the programs should then check, either with an exporter, a commercial bank or through the USDA directly, as to whether the allocation is operable. A late payment of a previous export credit guarantee commitment may temporarily suspend the current allocation. While many of the importers working with GSM-102/GSM-103 are actually government branches or trade entities, the importing country's private sector can participate under the program, and interested parties should check with their own government for any restrictions, as the credits are repaid in U.S. dollars, which creates a foreign exchange obligation.
USDA encourages the participation of private sector importers in these programs. However, in many instances, USDA will not make allocations to a country unless the central bank of that country makes assurances that the U.S. dollar obligation will be covered in the form of a Credit Guarantee Assurance (CGA). A CGA is an agreement which stipulates that if a foreign bank defaults on its payments under the GSM programs, the government of the foreign country guarantees to repay the obligation to the U.S. government. If a CGA is agreed to by a foreign government, it is then up to that government to decide how it will allocate the use of the credits among eligible importers in that particular country.

In other instances, USDA may not require a CGA. In these cases, individual foreign banks are analyzed and specific credit limits are set for each bank. Foreign importers can then negotiate directly with these approved banks or other banks within that country that have commercial relationships with the approved bank or banks for access to the GSM credit guarantees.

Assuming the credit is operable, the exporter and importer negotiate the original grain contract and the exporter's price includes the cost of the export credit guarantee fee called the premium. The original grain contract must call for payment under an irrevocable letter of credit. In addition, the credit guarantee will usually only cover the port value (FOB portion) of the transaction. A Cost and Freight (CNF) contract utilizing GSM-102/GSM-103 for the commodity will need to provide for two different payment terms, one for the FOB value of the commodity and one for the ocean freight. The premium schedule for the guarantee fee is based on the length of time the credit is needed and based on the interest rates for U.S. government debt obligations. The premium is equivalent to approximately one-third of 1 percent per year on the outstanding coverage for GSM-102. The premiums are higher for GSM-103 due to the longer credit periods. The GSM-102 premium is calculated based on a minimum of three months of coverage.

With a contract negotiated, the exporter will register the sale and submit the guarantee fee to the Commodity Credit Corporation (CCC). The CCC will evaluate the exporter's application and upon approval, will send the exporter a payment guarantee letter. The exporter usually then assigns the payment guarantee letter to a U.S. financial institution, almost always a U.S. commercial bank. By assigning the guarantee to a bank, the exporter reduces payment risk to the same level as an irrevocable letter of credit payable at sight, and CCC accepts the credit risk of the eligible foreign bank. A U.S. commercial bank - if not the issuing bank - provides the importer's
issuing bank and the importer credit for the amount not covered by the export guarantee, which is usually 2 percent. The exporter receives payment for the grain upon shipment of the commodity and presentation of the required documentation, and the U.S. commercial bank receives payment from the importer's local bank (or often the central bank) according to an agreed upon schedule, secure in the knowledge the U.S. government has assumed the great majority of the repayment risk.

If the importer wants to open the letter of credit with a bank located in the importer's country, the local bank must be approved by the USDA to participate in the programs. A list of approved banks can be obtained from the USDA, a U.S. embassy agricultural or commercial officer or from most exporters.

While the fee for the export guarantee is included in the price the importer will pay for the grain, the importer must also remember that other costs are incurred, such as letter of credit opening fees, confirmation fees, and most importantly, the cost of credit and fees charged by the issuing bank and the U.S. financial institution advising or confirming the letter of credit.

With the letter of credit issued by the importer's bank and advised to the exporter by the U.S. commercial bank to which the exporter assigns the payment guarantee letter, the exporter proceeds to ship the grain and present the necessary documents to the U.S. commercial bank for negotiation. In addition, the exporter must submit to USDA within 30 days of shipment, a statement of export and a revised payment schedule. The U.S. commercial bank passes the documents on to the importer through the importer's bank. The importer makes payments to the importer's bank, according to the scheduled agreement, covering the principal and interest of the credit, and the importer's bank makes payment to the U.S. commercial bank as per their scheduled arrangement. Principal and interest are usually paid by routine bank transfers to the U.S. bank that finances the transaction at the rates and intervals defined in the letter of credit or the financing agreement between the U.S. bank and the foreign bank. CCC requires that the total accrued interest be paid at each principal due date. Principal must be paid at least annually. In most cases, principal is paid semi-annually, with interest payments occurring at the same time. The U.S. bank providing the financing may require that interest be paid at more frequent intervals than principal. The interest rate is negotiated between the U.S. bank and the foreign bank. In almost all cases, the interest rate is based on a premium to the London interbank offer rate (LIBOR). Occasionally, the U.S. prime rate is used to establish
the base rate, with a spread negotiated to establish the effective rate. Both the LIBOR and the U.S. prime rates float. It is permissible under the GSM program for interest rates to be adjusted at periodic intervals based on changes in the LIBOR or prime rate if these adjustments have also been agreed to by the U.S. and foreign banks. It should be noted, however, that the interest negotiated between the U.S. bank and the foreign bank is totally separate from the interest rate and other terms negotiated between the foreign bank and the importer. If the importer is going to repay the local bank in local currency, then it is most likely that prevailing trade financing rates will be incurred by the importer which may or may not be correlated with LIBOR or U.S. prime rates. However, if the importer is repaying the local bank in U.S. dollars (and, in effect, bearing all exchange rate risks), it is useful to know current LIBOR and U.S. prime rates when negotiating the terms and conditions of the financing with a local bank.

There is no penalty for early repayments. Therefore, even shorter credit periods may be possible if the U.S. and foreign banks agree to early repayments. The minimum guarantee fee remains the three month fee and no refunds will be made by CCC when the banks agree to early repayment.

WHAT ARE THE ADVANTAGES/DISADVANTAGES OF EXPORT GUARANTEE PROGRAMS?

The use of the GSM-102/GSM-103 financing programs is more costly to the importer than a contract calling for a sight letter of credit payment due to the number of parties involved and the need for a guarantee fee. In addition, the fact that the credit is denominated in U.S. dollars and covers an extended period of up to 10 years, presents the importer or the importer's bank with increased foreign exchange risk. Although many program users are government entities that can handle this exposure, private sector importers can seek to cover foreign exchange risk through a local bank or commercial institution specializing in foreign exchange hedging.

These few disadvantages are minimal compared to the benefits these programs provide the importer. The GSM-102/GSM-103 programs provide very competitive financing terms at a minimal cost to importers who may not be able to import U.S. grains without the credit facilities.
It should also be noted that as countries around the world privatize their grain distribution systems and more trade will be occurring between private agents and/or end users, the U.S. government credit programs are adapting to meet these changes and reflect the needs of private importers. Decreasing the minimum guarantee term to three months, and approval of additional banks within many countries to increase competition for the financing component, are just two changes seen recently which add to the value of the program for the importer. Also, other changes will be occurring in the near future which will add further flexibility and benefits to these important programs.

OTHER U.S. GOVERNMENT PROGRAMS

Export-Import Bank of the United States:
The Export-Import Bank of the United States (EXIMBANK) also offers programs which may be utilized for U.S. agricultural commodity exports. Most of these programs are insurance policies which the exporter or the U.S. bank takes on to reduce their financial exposure. This coverage protects against both political and commercial risk and may cover either single or multiple shipments under the same contract. EXIMBANK also occasionally offers credits or credit guarantees to selected countries or regions. Most exporters will know which EXIMBANK programs could potentially apply to a given situation and should be utilized as a resource when investigating financing options.

THE TIME OF ACCEPTANCE LETTER OF CREDIT

The time of acceptance letter of credit is similar to a sight letter of credit except that the importer agrees with the exporter to pay for the grain at some future date, usually a term of 180 days or less. The exporter, as beneficiary of the letter of credit, may present a draft drawn from his bank or other negotiating bank and discount the proceeds; that is, receive immediate payment less some fee that the bank charges for the time value of money and the payment credit risk.
HOW DOES THE TIME OF ACCEPTANCE LETTER OF CREDIT WORK?

An importer/exporter follows the same steps as in the letter of credit payment. The importer's bank opens a letter of credit at the request of the importer. The importer's bank informs the exporter's bank of the credit. The exporter's bank advises the exporter of the credit. Shipment occurs, and the documents are presented to the exporter's bank. These are documents that include a draft calling for payment at the agreed date - a time draft. Assuming the documents are in order, the exporter's bank may add its acceptance to the time draft and discount the time draft, making payment to the exporter. The importer's bank then receives the documents and releases them to the importer, who makes payment for the grain on the agreed date.

WHAT ARE THE ADVANTAGES/DISADVANTAGES OF THE TIME OF ACCEPTANCE LETTER OF CREDIT?

An importer involved in the processing of feed grains finds this form of financing advantageous, as it allows the importer the time necessary to process and/or market the resulting products and use the funds generated to pay the exporter. Additionally, the exporter may be able to make sales to importers otherwise not possible without the financing arrangement. However, these benefits must be weighed against the premium the exporter may build into the exporter's price representing the cost of discounting the draft.

THE DEFERRED PAYMENT LETTER OF CREDIT

A deferred payment letter of credit differs from a time of acceptance letter of credit in two very important ways. First, the deferred letter of credit is for a longer time period, usually up to 360 days. Second, this type of financing does not provide the exporter with the ability to discount the draft since the exporter cannot present the draft until the future date specified in the letter of credit.

HOW DOES THE DEFERRED PAYMENT LETTER OF CREDIT WORK?

The deferred payment letter of credit operates just like a sight letter of credit payment with the only procedural difference being that the exporter receives the payment from his bank at the agreed upon future date.
WHAT ARE THE ADVANTAGES/DISADVANTAGES OF THE DEFERRED PAYMENT LETTER OF CREDIT?

While providing the importer with a longer time period in which to make payment for the grain, the cost of this financing method reflected by the exporter as a premium included in the contract price can be great and alternative financing methods, like the GSM-102 program, might prove less expensive.

DISCOUNTING AND REFINANCING FINANCE OPTIONS

Financing the importation of feed grains can occur by methods that do not involve a letter of credit. The exporter may agree to accept terms with the importer using an open account arrangement with the additional stipulation of payment at a future date, creating a receivable for the exporter. Similar to the time of acceptance letter of credit, the exporter can then discount the draft with a bank willing to accept the receivable and the inherent credit risk. The discounting can occur on a non-recourse basis, where the exporter accepts no responsibility for repayment, or on a recourse basis, where the discounting bank can make a claim against the exporter in the event the importer does not pay. While this method allows the exporter to receive immediate payment for the feed grain, the payment risk to the exporter (or to the discounting bank in the case of non-recourse discounting) is very high and may cause the exporter to include a large risk premium in the exporter's price.

Finally, there are a variety of conditions under which the importer's bank may agree to refinance. The importer may have a revolving credit arrangement used to finance inventories, for example. While simply another form of draft or receivable discounting, the payment risk is normally transferred from the exporter to the exporter's bank.

CCC SUPPLIER CREDIT GUARANTEE PROGRAM

The U.S. Department of Agriculture administers export credit guarantee programs for commercial financing of U.S. agricultural exports. These USDA Commodity Credit Corporation (CCC) programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees.
Under the Supplier Credit Guarantee Program (SCGP), CCC guarantees a portion of payments due from importers under short-term financing (up to 180 days) that exporters have extended directly to the importers for the purchase of U.S. agricultural products. These direct credits must be secured by promissory notes signed by the importers.

CCC does not provide financing but guarantees payment due from the importer. A substantially smaller portion of the value of exports (currently 65 percent) is guaranteed under the SCGP than under the Export Credit Guarantee Program (GSM-102), where CCC is guaranteeing foreign bank obligations. Program announcements provide information on specific country and commodity allocations, length of credit periods, the required form of promissory note, and other program information and requirements.

The Foreign Agricultural Service (FAS) administers the SCGP. Regulations for this program are found in 7 CFR 1493, Subpart D.

**Eligible Countries or Regions:** Interested parties, including U.S. exporters and foreign buyers, may request that CCC establish a program for a country or region. Prior to approval, CCC evaluates the ability of each country to service CCC-guaranteed debt.

**Eligible Commodities:** The SCGP targets specific U.S. agricultural products, with an emphasis on high-value products and market potential.

**Participation:** CCC must qualify exporters for participation before accepting guarantee applications. Exporters who have previously qualified under the Export Credit Guarantee Program (GSM-102) or the Intermediate Export Credit Guarantee Program (GSM-103) are automatically eligible. New program applicants must have a business office in the United States and must not be debarred or suspended from participating in any U.S. government programs.

The exporter negotiates the terms of the export credit sale with the importer. Once a firm sale exists, the qualified U.S. exporter must apply for a payment guarantee before the date of export. The exporter pays a fee for the guarantee calculated on the guaranteed portion of the value of the export sale.

**Financing:** The importer must issue a dollar-denominated promissory note in favor of the U.S. exporter. The note must be in the form specified in the applicable country or regional program announcement. The U.S. exporter may negotiate an arrangement to
be paid, in full or in part, by assigning to a U.S. financial institution the right to proceed that may become payable under CCC's guarantee. Under this arrangement, the exporter would also provide transaction-related documents required by the financial institution, including a copy of the export report which must also be submitted to CCC.

**Defaults/Claims:** If an importer fails to make any payment as agreed, the exporter or assignee must submit a notice of default to CCC. A claim for loss may also be filed, and CCC will promptly pay claims found to be in good order unless CCC determines that the guaranteed portion of the port value exceeds the prevailing U.S. market value of the commodity or product exported.

For audit purposes, the U.S. exporter must obtain documentation showing that the commodity arrived in the eligible country and must maintain all transaction documents for 5 years after payments are completed.

**FACILITY GUARANTEE PROGRAM**

The U.S. Department of Agriculture's Facility Guarantee Program (FGP) is designed to expand sales of U.S. agricultural products to emerging markets where the demand for such products may be constrained due to inadequate storage, processing, or handling capabilities. The program provides payment guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets.

The FGP, a USDA Commodity Credit Corporation (CCC) program, is administered by the Foreign Agricultural Service (FAS). FGP regulations are a subpart of the Export Credit Guarantee Program (GSM-102) and the Intermediate Export Credit Guarantee Program (GSM-103) regulations (7 CFR Part 1493).

**Qualified Projects:** The Secretary of Agriculture must determine that the project will primarily promote the export of U.S. agricultural commodities or products to emerging markets.

**Emerging Market:** An emerging market is a country that the Secretary of Agriculture determines (1) is taking steps toward a market-oriented economy through the food, agriculture, or rural business sectors; and (2) has the potential to provide a viable and significant market for U.S. agricultural commodities or products.
**U.S. Content**: Only U.S. goods and services are eligible under the program. CCC will consider projects only where the combined value of the foreign components in U.S. goods and services approved by CCC represents less than 50 percent of the eligible sales transaction.

**Initial Payment**: An initial payment representing at least 15 percent of the value of the sales transaction must be provided by the importer to the exporter.

**Payment Terms**: Payment terms may range from 1 to 10 years, with semi-annual installments on principal and interest.

**Payment Mechanism**: Payment must be made to the exporter in U.S. dollars on deferred payment terms under an irrevocable foreign bank letter of credit.

**Coverage**: CCC determines the rate of coverage (currently 95 percent) that will apply to the value of the transaction (excluding the minimum 15-percent initial payment). CCC also covers a portion of interest on a variable rate basis. CCC agrees to pay exporters or their assignee financial institutions in the event a foreign bank fails to make payment pursuant to the terms of the letter of credit. FGP does not cover the risk of defaults on credits or loans extended by foreign banks to importers or owners of facilities.