Rice flower information kit

Reprint – information current in 1997

REPRINT INFORMATION – PLEASE READ!

For updated information please call 13 25 23 or visit the website www.deedi.qld.gov.au

This publication has been reprinted as a digital book without any changes to the content published in 1997. We advise readers to take particular note of the areas most likely to be out-of-date and so requiring further research:

- Chemical recommendations—check with an agronomist or Infopest www.infopest.qld.gov.au
- Financial information—costs and returns listed in this publication are out of date. Please contact an adviser or industry body to assist with identifying more current figures.
- Varieties—new varieties are likely to be available and some older varieties may no longer be recommended. Check with an agronomist, call the Business Information Centre on 13 25 23, visit our website www.deedi.qld.gov.au or contact the industry body.
- Contacts—many of the contact details may have changed and there could be several new contacts available. The industry organisation may be able to assist you to find the information or services you require.
- Organisation names—most government agencies referred to in this publication have had name changes. Contact the Business Information Centre on 13 25 23 or the industry organisation to find out the current name and contact details for these agencies.
- Additional information—many other sources of information are now available for each crop. Contact an agronomist, Business Information Centre on 13 25 23 or the industry organisation for other suggested reading.

Even with these limitations we believe this information kit provides important and valuable information for intending and existing growers.

This publication was last revised in 1997. The information is not current and the accuracy of the information cannot be guaranteed by the State of Queensland.

This information has been made available to assist users to identify issues involved in marketing rice flower. This information is not to be used or relied upon by users for any purpose which may expose the user or any other person to loss or damage. Users should conduct their own inquiries and rely on their own independent professional advice.

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Queensland Government

6. Logistics of exporting

Introduction

The complexities of international trade mean that it is neither easy nor desirable to do your own exporting. True, there are some large and knowledgeable producers with sufficient operating capital and cash flow who develop their own markets, organise product transport chains, negotiate freight and insurance rates, sort out documentation, manage risk and undertake their own quality control. However they are only a small minority. The issue is, do you have time to both grow and export? If you do both, are you going to improve or diminish your prospects for a successful business?

Specialised flower exporters with experience in handling greenlife products are the preferred option for most growers. Choosing the right exporter or exporters is one of the most important business decisions you will make in flower farming. You should be in an informal business partnership with your exporter. Both parties need to work to improve not only the profitability of their own businesses, but to ensure the success of the other's business. The emphasis here is on **teamwork**, **communication**, **honesty** and **trust**. To succeed you need to find an exporter with whom you feel you can work with minimal conflict. Opportunities and pressures in the international market place are constantly changing, and to be responsive it is vital to have an open channel of communication between grower and exporter.

Finding the right exporter

What constitutes a good flower exporter? The Flower Export Council of Australia (FECA), a professional body of flower exporters, has developed a ten point check list. FECA's criteria for good exporters are:

- honest business ethics
- sound market knowledge
- use of a good freight forwarder
- acceptance of responsibility for product after the quality check
- close post-shipment monitoring
- immediate feedback to suppliers on each shipment
- fair price (gross return less costs) for purchases or
- fair commission (costs plus services) for brokerage
- prompt payment as agreed at the outset
- active promotion of suppliers' products.

Methods of sale

There are four channels of entry for wildflowers into the export market.

- Karingal Consultants in 1993 (see RIRDC page 45) determined that 25 per cent of all Australian wildflowers supplied to the overseas market were obtained through domestic wholesalers reselling to exporters. In most cases growers would be unaware of the fate of their flowers. This practice is undesirable from an export development point of view, throwing the onus of responsibility for maintaining quality and grading standards onto the exporter alone. The absence of the postharvest treatments needed to satisfy export requirements often leads to major quality problems overseas.

- Twenty per cent of flowers were found by the consultant to be sent directly overseas by growers. However, most growers are not large enough to establish a strong trading relationship with overseas buyers, and the exposure to risk is high for growers involved in direct export. These factors are discussed in more detail in the following section.
- Forty-nine per cent of wildflowers for export were sold to exporters at an agreed price.
- The remaining 6 per cent was sold overseas on consignment. Over a season consignment (auction) prices tend to provide returns similar to those from agreed prices. The fluctuations in the price received are higher at auction, but in a favourable market the grower is not locked into a fixed price and has the possibility of making extra money with quality product at the right place and time.

Auctioning is a favoured method of assessing the demand for new product. Rare product brings high prices, leading to extravagant estimates of potential returns to growers. However, these 'novelty prices' fall markedly as supply increases, leading to disappointment amongst growers.

Risk in export

Transaction risk

There are a number of combinations of business transactions relating to export cutflowers. The risk can be borne solely by the grower (in the case of a grower-exporter), be shared between the grower and the exporter, or be the responsibility of the exporter alone. Sometimes exporters will purchase certain products at a fixed price directly from growers. In this case the exporter accepts the risk, provided that the grower is not considered at fault in the event of a claim. For consignment (auction) transactions the risks are normally shared between the grower and the exporter. The partitioning of the risks is negotiated on an individual basis as part of the terms of trade.

Once a grower has located a reputable exporter, there are three main types of financial risk to be aware of. Established exporters have all encountered these problems and have instituted their own safety mechanisms to overcome them. Their systems are not seen by most growers and are part of the skills involved in successful export wholesaling.

Credit

Credit risk involves the ability of the overseas buyer 'to pay for goods received'. Needless to say near-bankrupt businesses or those with a history of defaulting on payments or fraud represent a hazard to your business.

Overseas banks are able to provide reports on the financial strength and business reputation of buyers (both firms and individuals), to help establish how reliable they are. Unfortunately such credit reports cost from $A200 to $A450 and represent a big investment if there are 15 or 20 potential buyers. Each report needs to be assessed prior to negotiating terms of trade that might favour the buyer at a risk to the exporter. Language barriers or different accounting conventions may impede understanding of the contents of credit reports, necessitating the services of an accountant or legal practitioner specialising in export. In Asian countries in particular, attempts to renegotiate a transaction because of the belated discovery of an importer's poor credit status can humiliate a status-conscious buyer and sour trading relations.

The flower business world-wide operates best on personal relationships, knowledge and trust. Customer rapport takes a long time to establish. Open accounts can be used for low-risk customers, and are

common in the flower export business. These provide for the buyer to pay for goods via a bank draft or telegraphic funds transfer and can be used for goods on consignment (where payment occurs subject to sale) or merchant (straight buying and selling) transactions. Once goods have been handed over before receipt of payment, control is lost. The credit rating and integrity of buyers are thus extremely important.

The success of debt recovery in overseas countries varies, often in accordance with the potential to take legal enforcement action. High risk countries include Indonesia, China and Korea.

Letters of credit are an option for exports to higher risk buyers, if they will agree to it. The risk is then transferred to a bank. However, some overseas banks are very small, and do not offer the level of protection expected from an Australian bank. The safest form and the most favoured (by exporters) is a confirmed irrevocable letter of credit (ILC). Here a bank undertakes to pay the exporter upon the supply of certain agreed documents that demonstrate that the goods have been shipped. Revocable letters of credit offer little protection, as the buyer can withdraw the credit request.

Another option is to obtain payment in advance of dispatch, but this is not favoured by buyers. The perishable nature and variability of flowers mean that most agreements are based on 'sight' acceptance. A version of advance payment is to ship the goods overseas, but not to release them until payment is received. This can involve product storage and insurance charges. It is not recommended for highly perishable commodities such as cutflowers unless there is a high expectation of receiving payment and a ready alternative market in case of default.

A more insidious form of credit risk occurs with long payment delays. It would be reasonable for a grower to expect payment approximately 45 days (range 30–50 days) after sending goods. However, some overseas importers extend their credit to 120 days. If you allow your buyers extended credit you have effectively become an interest-free money lender! Unless you can afford to deal with slow payers, find alternative buyers.

Exchange

Exchange risk can mean a return of either more or fewer Australian dollars, depending on the relative international strength of the currency. Exchange losses sometimes result from the delay between entering into a contract quoted in a foreign currency and actually receiving payment. Even more significantly, a product such as rice flower can become established in a market at a particular price point. When the Australian dollar is weak producers and exporters are advantaged. When the Australian dollar is strong and the overseas price does not change (as is common), Australian exporters receive fewer dollars in return for their product and profit margins are eroded.

These risks can be counteracted by measures such as entering into a forward exchange contract; running a foreign currency account; offsetting exports against imports; and paying expenses such as overseas loans or freight costs in foreign currency.

Common causes for delays are paperwork problems (such as when an invoice is issued for a whole consignment, but for unexpected reasons only part of the consignment is sent), and cash flow issues within the importing company.

Transfer

Transfer risk can result from government actions in the importing country: although buyers have the money to pay for goods, they are prevented from doing so. A financial crisis, such as a low level of currency reserves or a balance of payments problem, may lead to government-imposed exchange or trading controls that prevent importers from honouring their obligations to overseas suppliers. Once again exporters are left significantly exposed where goods are sent prior to receiving payment. Exporters need to monitor the general economic climate in receiving countries for weaknesses, and obtain information from their bank if the situation appears to be deteriorating.

Private sector insurance agencies and the Australian government's Export Finance and Insurance Corporation (EFIC) can be used to underwrite some export credit and political risks.

Product spoilage

Almost all exporting cutflower growers have stories of consignments for which they were either very poorly or never paid. This normally relates to flowers spoilt during transit to market. Identified risk areas are

- incorrect carton **packing density**—too few stems per carton results in product shifting excessively during handling, while too many stems results in crushing and increases the potential for overheating;
- poor **carton strength**—carton collapse;
- other **mechanical damage** in transit (plantation to export packing shed to freight forwarder to importer to overseas distribution chain)—poor handling practices;
- **overheating**—lack of airport and receiving depot cool storage facilities, non-refrigerated vehicles, poor distribution infrastructure at some overseas destinations;
- **delays**—in cool storing, or arising from changes in flight schedules and route travelled, or from inadequate documentation;
- **pests and diseases** (from the plantation or through reinfestation) detected on arrival—refumigation at point of import, causing quality deterioration;
- **poor quality** at packing—leading to atrocious quality at overseas point of sale.

Poor quality and badly packaged product can easily yield negative returns after commission, government charges and freight have been deducted. This necessitates a rigorous adherence to quality standards on the plantation and in the export packing shed prior to departure. Many exporters have their own quality audits to provide feedback to growers on flower quality.

Insurance against damage during transit is expensive and can erode profit margins. The airline contract undertakes to move product from A to B, but does not guarantee a delivery time or the route along which the flowers are moved. Most airline freight contracts insure any product to the value of $A20 per kilogram. Providing that adequate documentation exists and there is proof of airline negligence, claims are paid in around six months. However, it can be extremely difficult to prove that an airline is at fault.

A minority of exporters have 'inherent vice' cover which insures flowers against all contingencies (such as overheating, delays or mechanical damage) beyond the control of the grower or exporter in Australia. Refumigation with methyl bromide or cyanide is a special hazard to rice flower, rendering it unusable. To minimise the exposure of the insurer to claims, inherent vice cover is issued only to exporters with excellent quality control mechanisms in place.

Freight forwarders have an important role to play in the transport chain. They negotiate freight rates and space bookings with airlines, cool store and consolidate loads, organise documentation, and can arrange inspections by the Australian Quarantine Inspection Service (AQIS). In many instances product moves from the on-farm export packing shed straight to the freight forwarder.

The exporter's choice of freight forwarder can significantly affect how well the product arrives at its destination. FECA recommends that freight forwarders used by its members be International Air Transport Association (IATA) registered and be capable of implementing quality systems. Some further FECA guidelines are summarised below:

- The firm should be big enough (within the top ten for air freight within Australia) to negotiate space to the exporter's benefit.
- Offices or strong associates should be located in relevant capital cities to facilitate transhipment.
- Each location should have personnel experienced in handling perishable goods, particularly flowers.
- The firm should have professional handling facilities (registered in-house coolstores and forced air cooling facilities, pallet/container loading systems, roller bed trucks, scales and mobile communications).
- Facilities should operate seven days per week.
- The firm should be conscientious in the cooling, handling and general care of flowers for their entire journey.
- Claims on airlines for losses incurred due to poor handling, missed connections and other problems should be willingly and vigorously pursued.

Low returns for product

The costs associated with export are substantial, and must be paid irrespective of the return achieved. If your initial flower quality is poor, negative net returns can result. Some costs—such as insurance, domestic freight, AQIS fees, freight overseas and distribution costs overseas—are independent of the sale price of the product. Other charges, such as auction, importer and exporter commissions, are usually a percentage of the sale price. Table 6 gives an example of the add-on costs between the grower and sale at auction in Japan.

Table 6: Cost of exporting—example for 100 rice flower stems in a 7 kg box to Japan

Item	Cost
Auction commission	10% of sale price
Importer commission	8% of sale price
Distribution costs in Japan	450 Yen
Exporter commission	15% of net proceeds*
Freight, AQIS, freight forwarder	$A10.00
Insurance	$A3.00

* After deduction of auction and importer commissions and distribution costs in Japan. Exporters' commission rates are negotiable according to volume.

Source: IHM Pty Ltd, November 1997

Due to the overheads associated with exporting, exchange rate variations have a greater relative impact on grower returns for a lower value product than for high value product. If the price received is poor, the exchange rate has the capacity to completely erode profits after production costs have been deducted. Table 7 gives an example of the impact of sale price and exchange rate on the net return per stem. The assumptions behind this table are outlined in Appendix 3.

Table 7: Effect of sale price and exchange rate on net return to grower—example for a box of 100 stems of rice flower 90 cm in length

	Return to grower ($A per stem)	
Sale price (Yen per stem)	**Exchange rate: ¥/$A = 75**	**Exchange rate: ¥/$A = 90**
70	$0.47	$0.37
150	$1.21	$0.99

Source: IHM Pty Ltd, November 1997

Although it is unusual for consigned product to be left unsold, very low returns are sometimes achieved at auction. The answer to is to know your product and to know your market. Present supplies of rice flower are unlikely to glut the market in their own right, but poor distribution systems may lead to an over-concentration of flowers at a particular location. Price-sensitive markets such as the United States are liable to substitute other cheaper high quality filler flowers or foliage.

The market has to undergo a familiarisation process with rice flower at the start of each season; but just as buyers are accustomed to it the harvest finishes. The short season and lack of continuity of supply have a negative effect on how rice flower is perceived in the market, and on consumer demand.

Poor quality, leaf blackening, over-mature flower heads, short shelf life and cultural factors relating to colour, flower form, use and seasonal availability all affect market acceptance. Socio-economic factors determine the price that a given market will bear: even in poor countries significant pockets of wealth may make rice flower a profitable export, although the commodity may be beyond the reach of the average citizen.

New flower lines like rice flower present a special challenge, as consumers need to be educated on product use and handling. Grower-driven promotions, in conjunction with Australian exporters, have an important role to play in generating demand.

Wild card risks

In addition to transaction risks, product spoilage and low returns, unpredictable events can seriously damage the flower export business. Some examples include the Australian airline pilots' strike, the Gulf War and the death of the Japanese emperor. Australia's diplomatic standing with trading partners is also a factor.

Australian departure points

All fresh flowers are exported by air freight from the international airports in Sydney, Brisbane, Melbourne, Cairns, Perth, Adelaide or Darwin. Sea shipments of dried flowers are consigned from Western Australia. The amount of air freight capacity from any airport is determined by tourist traffic, and affects both the cost and the timing of exports. The lower capacities available from Perth have resulted in the transhipment of flowers to the east coast for export. Reasonable air freight space is available in Queensland from Cairns and Brisbane and in New South Wales from Sydney.

Paperwork, phytosanitary certificates and federal export licences

Any export requires the completion of a multitude of forms. They include the grower's invoice, the airway bill, the phytosanitary certificate and the export licence. Much of this paperwork can be done by an exporter or freight forwarder, whose expertise makes the task much less onerous than it first appears. Details about some of the necessary documentation are provided below to assist you in dealings with your exporter or freight forwarder.

Phytosanitary certificates

Phytosanitary certificates are issued by AQIS to certify that the flowers have been inspected and found to be free of obvious pests and diseases. The inspectors **do not** inspect for other product quality characteristics. Not all countries need this certificate: consignments to Japan and some European countries require a certificate, those to Hong Kong and the United States do not. As flowers are freely re-exported throughout Europe, a phytosanitary certificate provides good insurance against an unexpected overseas inspection bill. Japan has had a zero tolerance for live insects, though it may in future accept insects already common in Japan. At the grower level, unless you are an entomologist trained in insect identification, you need to aim for zero insects in the flower box.

As the specific requirements of each importing country can be changed at any time, current requirements for each flower species for each country should be checked before export.

Federal export licences

Export trade in internationally endangered plants (that is, those listed on the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES)) and Australian native plants and plant material (such as cutflowers, stems and foliage) is regulated under Australian law through the *Wildlife Protection (Regulation of Exports and Imports) Act 1982*. Export approvals must be obtained from Environment Australia (formerly the Australian Nature Conservation Agency), a federal government department. An Environment Australia permit or authority must be issued prior to the consignment of any flowers or seeds. Most exporters are able to obtain a 12 month authority for the export of flowers grown in cultivation. Records of exports must be returned to Environment Australia during the year.