C) Fulfilling Countertrade Obligations

A number of strategies can be followed in the fulfillment of countertrade obligations. These can include purchase of goods for in-house use; purchase for resale; and the engagement of third parties to assume the countertrade obligations.

(i) *Purchase for in-house use.*

Counterpurchased goods such as raw materials, semi-processed goods or components can be used for internal production. In addition, opportunities may exist for the sale of counterpurchased goods to sub-contractors or customers. There are, however, a number of problems inherent in such an approach:

a) **Internal resistance to new sources of supply.** Company buyers and procurement officers may be reluctant to change or try new suppliers in order to satisfy company countertrade requirements. Senior management direction may be required to rectify this situation.

b) **Availability of quality goods at competitive prices.** Many countries lack the production capability and industrial base or economic infrastructure to supply these needs on an on-going basis. Upgrading facilities in the buying country is a strategy tried by some which has led to stable and profitable long-term relationships. Such approaches are favoured by developing and under-developed countries.

(ii) *Purchase for resale*

This strategy may involve the resale of goods taken in countertrade by the exporter himself. Obvious prerequisites for such an undertaking are the necessary marketing skills and distribution network. This function is frequently performed by in-house trading units for products related (or unrelated) to the company's normal line of business. The use of in-house trading units can reduce the costs of countertrade if sufficient volume exists. Nevertheless, the risks of handling unfamiliar products or acquiring the expertise to do so must be taken into consideration.

(iii) *Using trading houses*

One of the options available to a Canadian exporter in dealing with a countertrade situation is to seek the assistance of a trading house to discharge the responsibility for the counterpurchase commitment. An experienced third-party intermediary can be of great assistance in concluding a profitable sales contract. There is a certain convenience in turning over the countertrade portfolio to another entity and there is some truth in the opinion that manufacturers should not buy products that they do not need, use or have confidence in. A trading house will have a wide knowledge of dealing in a variety of products. Its sales network for countertrade goods will be already established. A trading house can assist in bid preparations by giving prompt countertrade cost estimates (i.e., subsidies and fees required). Selecting the proper intermediary is not a simple process. To assist exporters, the following procedure should be followed in dealing with trading houses:

1. Contact should be made with a trading house at the preliminary stages of negotiation, prior to entering into any discussion on price.
2. Review the trading house's geographical distribution of trade. In circumstances where the counterpurchase volume is large, it is advisable to negotiate with a trading house that has a broad distribution network.
3. Where possible, it is recommended that a trading house that has a continuing presence in the country that you are negotiating with be selected.
4. Request a serious indication from the trading house. The trading house will then respond by providing the service costs to be included in your pricing.
5. Comparison shop, since the range of services and costs may vary greatly between trading houses.
6. Although some trading houses may be willing to directly participate in countertrade negotiations, it is not advisable because you immediately make the country aware that the countertrade goods will not be purchased for your own country's use.
7. The only time fees are paid to a trading house is when evidence has been provided that the counterpurchase obligation has been fulfilled. The exporter then pays the service costs which normally consist of a commission plus a subsidy. The commission covers such things as financing charges, cost of penalty guarantee, general operating expenses, and profit. The subsidy represents the difference between the purchase price and the price at which the goods can be sold to a third party.

An alphabetical listing that contains pertinent information to assist exporters with the selection of a trading house for countertrade purposes is included in Appendix I.

(iv) *Consultants and banks*

There are numerous banks and consultants which can provide assistance to exporters.

Banks offer countertrade services in the form of information on the various forms of countertrade and specific practices in countries. They are also in a position to establish escrow accounts, provide bridge and pre-export financing, assist in negotiating countertrade arrangements, and locate buyers or appropriate trading houses.

Consultants can also be of assistance where the human resources of a company are insufficient to take on the role of a countertrade co-ordinator, or "focal point". Consultants can be engaged to provide or supplement this service or arrange any of the other services required to address countertrade demands.

CONTRACT CONSIDERATIONS

Experience has taught many exporters that small legal points can create serious difficulties if they are not drafted into the countertrade contract with clarity and precision. Countertrade transactions, primarily of the counterpurchase and buyback variety, consist of the following related but separate legal instruments: (1) the original commercial contract; (2) the countertrade contract which sets out the terms and conditions of the counterpurchase commitment; and (3) the protocol that links the two contracts. To assist in drafting the countertrade contract, the various