

After applying the estimates of 20% countertrade in East-West trade and 6% in North-South trade, using our knowledge of countertrade experiences of Canadian exporters, and studying preliminary results of an internal countertrade study currently underway, it is estimated that approximately \$600 million of 1984 Canadian exports involved some form or degree of countertrade. This was equivalent to 0.5% of total Canadian exports.

While these figures are relatively small, most of the demands have fallen on a core grouping of Canadian industry sectors:

- 1) transportation equipment — air, rail and urban;
- 2) telecommunication, defence and other high technology products;
- 3) resource and energy extraction, processing and generation equipment;
- 4) agricultural and forestry equipment;
- 5) engineering and consulting services.

For companies in these sectors, countertrade will grow at a significant rate as they increase efforts to penetrate foreign markets. It is within this context that we recognize that to remain competitive, we must be prepared to adequately address countertrade demands.

GOVERNMENT POLICY ON COUNTERTRADE

From a multilateral policy perspective, Canada has traditionally adopted the view, in international forums and in concert with our major trading partners, that countertrade

- is a regressive trade practice which distorts the multilateral flow of goods and services;
- prejudices the export opportunities of small and medium-sized firms;
- deals inefficiently with the economic and financial constraints it attempts to resolve;
- manifests a regrettable trend to bilateralism; and
- tends to remove trade from the purview of normal GATT disciplines through its lack of transparency.

From a bilateral relations viewpoint, Canada has always made it clear to its trading partners that the Government of Canada will not become directly involved in countertrade deals. It has been the government's position that the initiative and responsibility for entering into countertrade rests with exporters alone.

DEALING WITH COUNTERTRADE

A) Developing a Corporate Policy and Organizational Response

While there are numerous alternatives for coping with counter-trade demands and the disposal of countertrade goods, such action should be consistent with an overall *prior* evaluation of the anticipated type, level and frequency of countertrade to be encountered. Such an evaluation should be taken in the context of the firm's long-term export marketing strategy, and should include answers to the following questions:

1. Does your marketing strategy include countries that currently require countertrade? Do the practices or legislation affect your customers or product market? Are there any trends or developments in these countries that may lead to changes in, or to new, countertrade requirements?
2. What form of countertrade is required? Counterpurchase? Offsets? Buyback? Barter? Other?

3. What is the countertrade strategy of your competitors?
4. What will be the effect on your sales to existing markets or to new markets if your policy is not to engage in countertrade?

Ideally such an analysis should be undertaken in every existing or target market, if only in a cursory manner. The findings will provide you with at least a preliminary assessment of the countertrade demands that might be expected and provide a basis for further internal investigation.

Answers relating to the type, level and frequency of countertrade anticipated will guide you in determining the type of organizational response required. Frequency and type of countertrade will determine the sophistication and resources required to cope with it. This may range from an internal focal point, or "expert", on countertrade to co-ordinate company activities and develop contacts with various trading houses, government services and other resources, to the structuring of a related trading house to undertake all aspects of counterpurchase, buybacks, offsets, etc.

Long-term North American trends indicate a movement to the development of greater internal expertise and less reliance on trading houses, largely because of the costs involved and their effect on price competitiveness. Internal focal points can be located in the procurement, financing, or marketing areas of a company or as a separate unit under senior management. Regardless of where it is located, countertrade studies and publications have emphasized the need for senior level support for this function to ensure it can effectively carry out its mandate and receive co-operation from other corporate divisions. For example, resistance may arise from procurement areas when asked to consider different sources of supply. A predetermined mandate for this function is therefore essential.

B) Preparing for Individual Countertrade Demands

To be used as an effective tool, countertrade and the considerations surrounding it in a particular circumstance should be researched as thoroughly as possible prior to official contact with the potential customer. This will place you on a par with your competitors and will allow the incorporation of the cost of countertrade into your selling price. The following considerations and questions should be addressed in carrying out such research:

(i) Country Market Intelligence

- 1) What have been the countertrade practices of the country in the past? (See Appendix II for countertrade profiles of 44 countries.)
- 2) Has the countertrade been implemented through legislation or policy formulation? In either case, has past experience demonstrated that some of the parameters are negotiable?
- 3) What are the objectives of the customer for using countertrade and how can these best be addressed?

(ii) Situation Assessment

Under conditions of negotiable countertrade requirements, an evaluation should be made of the following factors:

- 1) uniqueness of your product or technology;
- 2) priority assigned to its import;
- 3) price competitiveness;
- 4) financing considerations;
- 5) actions of competitors: Are they offering countertrade? If so, how much, what kind, to what level, etc.? How is their offer perceived by the buyer?