

Willingness of Canadian Firms to Engage in CT

Most Canadian companies prefer to do business with cash or letters of credit. Businesses engage in different forms of CT only as a last resort. There are several factors behind this attitude.

- most Canadian firms are relatively uninformed about CT practices and are unaware that specialized help is available through export trading houses
- goods generally offered for CT often suffer from poor quality, non-competitive prices and are difficult to market in sophisticated Western consumer markets
- in general, Canadian firms feel that the factors most responsible for a successful sale in Eastern Europe are, in order of perceived importance: (1) technological advantage (2) import priority assigned to their product (3) competitive price (4) attractive credit terms. Full and partial product payback was seen as least important
- the most important reason for terminating sales efforts were, in order of importance: (1) too costly and time-consuming to carry out an effective marketing strategy (2) other markets more attractive (3) limited manpower to pursue opportunities and competitors were offering a price which could not be matched. Overall commitment to counter-purchase was not considered important in the decision to terminate sales efforts.

Capital Availability

The availability of capital plays a vital role in CT arrangements, especially when proceeds from the disposal of counter deliveries occur only after the Western goods have been exported. In the intervening period, the Western exporter may have to absorb the costs associated with the credit extended to the importer as well as those that could occur from the late deliveries of CT goods.

In the East-West project survey, most firms indicated that existing official credit and insurance programs were adequate. The majority of firms, however, thought that attractive credit terms were, on average, only marginally important as a reason for sales success in Eastern Europe. The consensus among the firms was that the relatively small size of Canadian firms with limited managerial and capital resources restricted their activity in time-consuming CT markets.

Export-finance houses, international trade-finance houses and confirming houses are relatively new and unknown in Canada and could possibly fill the gap in financing facilities provided by EDC, governments and chartered banks.*

In-House Personnel for CT

When a company decides to involve itself in CT transactions on a permanent basis, it needs to assess the capabilities of its in-house personnel to handle CT transactions. This may involve upgrading or training new personnel or bringing in outside specialists on a permanent basis. The functions of the CT staff will be to:

- determine whether or not the CT costs will offset the profits derived from the company's sales in export markets;
- locate outside buyers, i.e., trading houses, for products that cannot be used internally; and
- assist in identifying financial institutions that provide credit for CT transactions.

* Some recently-established confirming houses in Canada are: Long American Export Finance Ltd.; Hastand Canada Ltd.; Forbes Canada Ltd.; TKM (Canada) Ltd.; and Tozer, Kemsley and Millbourn Ltd.