COUNTERTRADE - A CANADIAN PERSPECTIVE

I. INTRODUCTION

A countertrade (CT) transaction is one in which a seller (a Western exporter) provides a buyer (a communist importing enterprise) with deliveries (eg. technology, know-how, finished product, machinery and equipment) and contractually agrees to purchase goods from the buyer equal to an agreed upon value or percentage of the original sales contract value.

The value of the CT goods offered by the importing FTO may offset partially, fully or in some cases even exceed 100% of the Western export contract value (this most often occurs in compensation arrangements). CT transactions normally involve three separate documents:

1. a contract between the Western exporter and the importing FTO;

2. a financial agreement; and

3. a contract between the exporting FTO and the Western firm purchasing the counter-deliveries. Contracts normally include the provision that the Western firm can transfer its CT obligations to a third party, i.e., a trading house or another foreign buyer.

For the purpose of this study, the term countertrade (CT) is used to cover barter, compensation (buy-back), counterpurchase, switch and swap. Definitions of these forms of countertrade are listed in Appendix A on page 17.

II. ECONOMICS OF COUNTERTRADE*

In an economic sense, the benefits of further development of world trade lie not so much in the quantitative expansion of world trade, but rather relate directly to the ability to increase the qualitative division of labour among countries. In this sense, CT transactions may be seen as forces disrupting the free market system. Production is shifted to facilities and labour pools which do not operate on the basis of economic comparative advantage. As a consequence, market disruptions may occur which would increase pressure for protectionism to the detriment of international trade.

A number of disadvantages are associated with countertrade. These include:

a. CT transactions increase the price of goods imported from the West because the Western exporter must inflate his price to offset the cost of distribution and anticipated losses on the subsequent sale of low-quality "soft goods" which cannot readily be marketed for hard currency. The higher immediate cost of Western imports, and the lower price of subsequent Comecon exports offset, in large part, the immediate exchange advantage to countries requesting CT transactions.

b. A danger exists that the successful sale of a particular product will be regarded as an indication of further Western demand for the product when this is not the case.

c. Adaptation to modern requirements by means of structural adjustment and quality improvement is delayed by compensation trading.

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*Charles J. Gmuer, "Barter, Compensation and Cooperation", Export Financing, part IV, September 1978.