FOREWORD
by the
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Indian countertrade practices have had a serious impact on Canadian trade with India in the case of nine Canadian export commodities, which under Indian law can be imported into India only through Indian Government trading corporations. These nine "canalized" commodities are: newsprint and edible oils, imported solely by the State Trading Corporation of India (STC), and asbestos, potash, sulphur, nickel, copper, lead and zinc, imported solely by the Minerals and Metals Trading Corporation of India (MMTC). Taken together, this list of 9 commodities accounts for about half of Canada's exports to India.

The major impact of countertrade in the case of three of these commodities has been a significant loss of Canadian market share to suppliers from East Europe and the Soviet Union. Those countries enjoy "rupee trade agreements" with India, a form of countertrade which allows STC and MMTC to purchase the commodities for rupees instead of convertible currency; since convertible currency is increasingly scarce in India, the result has been a strong institutional preference to buy as much as possible from rupee suppliers. These "rupee trade agreements" are being phased out with most East European countries, but the agreement with the USSR has been renewed until 1995. Another impact of countertrade is that in many cases STC and MMTC have requested that foreign suppliers who bid in convertible currencies should agree to make a countervailing purchase of Indian goods worth 20% or 30% or more of the bid. The study that follows, prepared by a private consultant with experience in the field, describes various ways that have been used to satisfy such requests.

Canadian firms bidding on large capital projects, or on important contracts for the Indian military, may also find countertrade being requested. To date, however, countertrade is primarily related to the nine canalized commodities and capital projects.

The Canadian Government does not believe that countries should seek to balance their trade bilaterally, and it does not provide active encouragement to countertrade. Even in India the policy is controversial, as it is widely recognized that most countertrade obligations are in practice fulfilled by re-documenting existing exports rather than by creating additional new exports, and this is done at some additional cost.

Consequently countertrade policy is subject to change, as are the acceptable ways of fulfilling countertrade obligations. Canadian exporters are welcome to contact the Canadian High Commission in New Delhi for the latest changes.

The opinions expressed by the author of this study do not necessarily reflect the views of the Canadian Government.

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