DEFINITIONS: FORMS OF COUNTERTRADE (CT)

1. BARTER

Barter is the oldest and perhaps easiest form of countertrade to understand. A barter transaction is a one-time, direct exchange of goods between two nations, having offsetting values, without the exchange of money and with deliveries taking place over a short period of time.

Barter is the least used of the countertrade methods because of the improbability of mutual coincidence of wants bringing together two or more parties. An example of a barter deal is the 20 year agreement whereby Occidental Petroleum Corporation will annually ship one million tons of phosphate rock to Poland in exchange for the annual shipment of one-half million tons of Polish molten sulphur. Barter can also be triangular, as was the case where Israel sent potash to Poland, which sent an equal value shipment of sugar to Brazil, which in turn completed the transaction by sending an equal value shipment of coffee to Israel. No money changed hands.

2. COUNTERPURCHASE (PARALLEL DEALS)

Counterpurchase is the predominant form of CT with Eastern Europe and the U.S.S.R.

With a counterpurchase transaction, the Western exporter agrees to buy products from an Eastern FTO equivalent to a fixed value or percentage of his own deliveries. The exchange is normally separated into two contracts linked by a protocol of intent. Both sides in the transaction pay cash for the goods and services they receive at the time the deliveries are made. This is advantageous for the Western exporter since he has time to look around for suitable goods with which to fulfil his counterpurchase obligations. The counterpurchase obligations take place over a relatively short period of time, i.e. one to five years, generally represent less than 100% of the original contract value, can be transferred to a third party (trading house), and normally contain a penalty clause applicable if the counterpurchase is not concluded on time.

A recent example involves Brazil's agreement to buy $6.5 billion worth of oil from Iran over five years, paying for 30% of the oil with beans, rice, sugar, corn and other agricultural products, and the remaining 70% in hard currency. In another example, Frederick Krupp Huttenwerke AG of West Germany successfully bid a $9 million contract in exchange for Soviet machine tools and equipment. A Canadian illustration is General Motors (Canada) which sold four rear-dump haulers to Yugoslavia and agreed, through the World Trading Corporation, a trading subsidiary of its parent company, to buy a certain percentage of the contract value in Yugoslavian products.

3. COMPENSATION TRADE (BUY-BACK)

Compensation arrangements in dollar volume are the most rapidly growing form of CT and are usually part of an industrial cooperation agreement or joint venture without equity. Under this type of arrangement, a Western firm sells machinery, equipment, technology or a turnkey plant and obtains the resultant products as full or partial repayment. Obligations under compensation agreements are the most complex of all forms of CT. Projects are usually large in dollar value, require extensive negotiations and financing, take place over a long period of time (10 to 20 years is not uncommon), present extreme difficulties in fixing the value of the resultant products over the life of the agreement, and sometimes provide for cumulative value of the buy-back contract which is greater than the original sale.