to cope with suppliers and manufacturers in a wider range of countries. Internal re-organization of operations, expansion of international contacts and networks, and revision of long-term business strategies will all play a role in the solution. This line of thinking is reflected by the numerous U.S. multinationals that have already established their own trading companies (see also Appendix II — The Corporate Trading Company Model) in order to benefit from the co-ordination of the globalization of their activities and in order to extract the maximum benefits from such activities as overseas purchasing and sourcing, foreign investment, joint ventures, international marketing networks, contacts, and intelligence.

The Canadian Perspective

A combination of the nature, type and destination of Canadian exports as well as the structure of the Canadian economy has had a major influence on the relatively low level of countertrade encountered and engaged in by Canadian exporters *to date*. Reasons for this include (with exceptions of course):

(1) the majority of countertrade has been in the areas of manufactured products and capital projects;

(2) the large concentration of Canadian exports is in raw and semi-processed forms which are less often subject to countertrade;

(3) the majority of Canadian export activity is in markets which are not actively involved in countertrade i.e., U.S., Japan, and other OECD countries;

(4) the predominance of Canadian-based foreign subsidiary sales to parent companies (particularly in the manufactured products area); and

(5) the assuming of countertrade responsibilities of Canadian subsidiaries by foreign parent companies.

From an examination of the composition and destination of Canadian exports and discussions with the trade, we estimate that in *1983* one billion dollars or approximately 1.1 per cent of Canadian exports were affected by countertrade. However, this figure gains more importance if Canadian exports to the U.S. are excluded from consideration. Under this assumption countertrade has likely affected 5 per cent of non-U.S.-Canadian exports in 1983.

The future impact of countertrade on Canadian exports will be directed by two key factors in addition to those listed above:

(a) The lack of credit and hard currency problems of LDCs and NICs will gradually cause an increase in countertrade required in the Canadian exports of commodities and semi-processed goods;

(b) Canada is striving not only to increase its exports of manufactured products but also to diversify its markets to those NICs and LDCs now adopting countertrade stances.

Canadian Perspective: Conclusion

Given the global and Canadian factors cited, it would appear that in the short run countertrade will impact mostly on Canadian companies involved in the areas of major overseas projects and high value/high technology manufactured products. This would include companies in the following areas: transportation (air and rail), communications, agricultural equipment, resource extraction, and processing equipment and engineering services. In the longer run, countertrade should be expected to affect a much wider scope of Canadian exporters of commodities and semi-fabricated goods.

Canadian Exporters: How are they coping?

There have been three principal organizational responses by Canadian exporters to countertrade depending on the level and frequency encountered. These include:

(a) the designation of an individual(s) within the company responsible for developing knowledge of different countertrade techniques, contacts with countertrade practitioners and trading companies and co-ordinating the companies' countertrade activities. This might include employing an outside countertrade specialist to assist in arranging countertrade deals;

(b) an internal countertrade unit actively arranging for and disposing of goods both internally and externally, operating on a profit or cost basis; and

(c) a full-scale trading company subsidiary offering countertrade and related services to the public and operating on a profit basis.

Canadian companies operating in the above categories are mostly situated in the sectors of electronics, communications, industrial equipment, transportation, agricultural equipment, and resources.

In addition to organizational responses, a number of different sources of countertrade services and avenues for disposal of goods are available to Canadian exporters:

(1) Canadian multinationals such as Noranda and Massey-Ferguson are active in arranging countertrade deals and disposal of goods;

(2) Canadian subsidiaries of foreign trading companies such as Phillip Brothers, Metallgesellschaft, Mitsubishi, Mitsui and other foreign-owned trading companies, are active as in (1) above;

(3) foreign and Canadian banks offer countertrade services by providing information on the various forms of countertrade, and specific practices in particular countries, escrow accounts, bridge and pre-export financing. They also help by assisting or taking the lead role in negotiations concerning countertrade arrangements, by locating buyers or appropriate trading companies and co-ordinating their involvement, and by offering related countertrade consulting and services;

(4) small and medium-sized Canadian trading companies with specific product knowledge, market expertise, and contacts are doing countertrade in support of their own trade and on an ad hoc basis for other exporters.

It should also be remembered that the necessary countertrade expertise is not confined to Canadian sources. European and American trading companies, some without offices in Canada, have countertrade expertise relevant to an exporter's requirements and these services have been used. In addition, a common misconception is that goods received by Canadian exporters through countertrade deals end up in Canada, e.g., the frequently cited Romanian example of shoes or wine coming into Canada. This is generally not the case, because Canada has a limited market for the type of goods generally received in countertrade, and many of these goods are not of acceptable quality and often do not meet consumer standards. Exporters should try to exclude provisions that require the goods to be sold in Canada.

The Role of Canadian Trading Houses

In the course of its examination of this area, the Task Force identified some 20 small and medium-sized Canadian trading companies which had concluded countertrade