the highest level, countertrade remains a negotiable commercial condition, albeit a difficult one.

One of the complexities in dealing with Romania is co-ordinating the numerous government departments to obtain approval of a contract. Approval is required from the Ministry of Foreign Trade, the relevant sector ministry and involved foreign trade organizations. The Ministry of Foreign Trade, through its economic co-operation branch, maintains an organization expressly for co-ordinating, and advising on, countertrade deals. It should not, however, be looked to for support on countertrade contracts because, as a policy body, it is committed to maximizing countertrade coverage. In addition, each foreign trade organization also maintains its own countertrade division. In the fulfillment stage, the exporter may wish to seek the intervention of the Ministry of Foreign Trade to ensure Romanian commitments are met.

In negotiating contracts with the Romanians, the first rule of thumb is to keep the export and countertrade contracts separate. That is, the export contract is fulfilled regardless of the performance of the countertrade contract. Both documents must stand on their own merits. The only connection should run the other way — that is, if for any reason the export contract is not completed, the countertrade contract is immediately cancelled. The importance of good contracts cannot be over-emphasized. Generalities and ambiguities will lead to continuing countertrade problems.

The countertrade contract should also cover appropriate items such as Romanian supply obligations (the countertrade onus should remain with the Romanian contractual partner), pricing formula, product listing, time for fulfillment, safety clauses and procedures to prevent wrongful calling of bank guarantees for penalty payments for non-fulfillment. Transfer clauses, wide access to export-quality goods, length of fulfillment periods, flexibility on marketing counterpurchased products, and credit clauses to cover failure to provide products stipulated on firm dates and at competitive prices, are additional conditions which need to be specified. Caution should also be taken in agreeing to Romanian conditions that may, on the surface, be acceptable but could affect conditions in other parts of the contract.

In negotiating countertrade in Romania, the following additional points should be kept in mind:

- Never accept the so-called "Frame Contract" presented by your Romanian partner. This 'boiler plate' works entirely to the advantage of the Foreign Trade Organization, leaving you with all the obligations. Negotiate any countertrade document with the care you would dedicate to a sales contract. Attempt to reduce the penalty percentage and stretch out the counterpurchase fulfillment period. Demand access to a wide range of quality goods. Avoid, to the extent possible, the products of the machine-building industry. Avoid bilateralism where the countertrade products must go to Canada: you or your agent must have market flexibility.
- If you are asked to lower your price, make it conditional on a reduction or change in the countertrade deal. Should technology transfer arise, again request a drop in countertrade. Always build in a healthy premium for countertrade fees and subsidies. At some point in the negotiations, let your Romanian partner know that if he drops the countertrade demands you can lower your price significantly.
- While an export contract is a wonderful objective, some contracts are not worth having. Never panic in the face of cunning Romanian negotiating practices. If your potential partner senses you cannot leave without a sale, he will have you at a tremendous disadvantage. You should have a pre-established point at which time you will walk away. (This can have an excellent 'concentration' effect on your Romanian partner and can boost negotiations over an impasse.)
- If you have no intention of handling the countertrade in-house, make a loose arrangement with a capable trader before beginning negotiations. Try not to commit yourself in advance to any one trader unless you are absolutely satisfied with the advice received and the trader's track record.

Romania presents the most strident and persistent calls for countertrade of all the countries of Eastern Europe. There are many documented cases where fulfillment of countertrade obligations has proven frustrating, difficult and expensive. Given thorough preparation and careful negotiation, the exporter can reduce the risks associated with countertrade in Romania. The process is not an easy one but it can be managed. The successful exporter to Romania should find himself better prepared to face the marketing challenges that exist in many countries of the world.

## SAUDI ARABIA

Until the late 1970's, Saudi Arabia's industrial economy was based entirely on the steady growth of crude oil exports, ensured by OPEC solidarity. However, even before the early 1984 downturn in international petroleum market demand, Saudi Arabia began to reduce its dependency on oil and trading income by diversifying its industrial and agricultural base.

The 1980-85 government development plan focused on new government incentive programs to foster private-sector development of light to medium manufacturing and agro-processing, often in equity joint ventures with foreign technical partners. For its part, the government invested heavily in the refining of oil products, in the processing of gas previously flared, and in world scale petrochemical plants for value-added income generation.

Industrialization, the new economic priority of the early 1980's, was reflected even in the military, which was the first to utilize countertrade in the form of offsets as an official government policy instrument. In prequalifying bidders in 1983, the Ministry of Defence and Aviation (MODA) stipulated that the winner of its tender to supply a $1.3 billion (US) C31 (Command, Control, Communication Intelligence) system integrating Saudi Air Defence facilities, would have to re-invest 35% of the contract to establish high-technology services and industries in the kingdom. The original project guidelines called for highly-automated, capital-intensive manufacturing, emphasizing defence products and particularly electronics.

Prior to winning the C31 contract in February 1985, Boeing Aircraft had established tentative government and private Saudi joint venture partners, based on pre-feasibility studies of those projects short-listed by an inter-ministerial offset committee. Boeing now has six months to select the final projects from the short-list, and one year to undertake full feasibility studies proving or disproving the viability of the projects. These may include an airframe and avionics overhaul facility (the only project finalized to date), and factories to produce or assemble cable, telecommunications and computer equipment.

General Electric of the U.S. has a similar commitment as the only other foreign prime contractor supplying the second major component of the C31 system: a $750 million system of low-level surveillance radars. General