

Commodities scheduled to fulfil counterpurchase commitments generally have low priority in the production planning of Eastern Bloc countries. Therefore, these goods suffer from low quality, inflated prices, lack of spare parts and after-sales service, inadequate packaging and delivery delays. In many instances, products such as raw materials and semi-processed goods which could be sold in hard currency markets appear on lists of goods offered for export but in the majority of cases are no longer available when the Western firms ask for them.

#### C. Institutional Arrangements for Countertrade

In all Eastern Bloc countries, foreign trade organizations (FTO's) are responsible to, and supervised by, a corresponding industrial ministry. National banks supervise financial transactions with foreigners. The ministry of foreign trade (MFT) is generally responsible for setting policy guidelines and for coordinating CT activities. However, in the majority of countries the MFT does not have a special department for CT transactions or participate directly in CT negotiations.

Officially Western firms are supposed to be able to purchase goods from a wide variety of FTO's under several different industrial ministries. In practice, the "linking" of counterpurchases from more than one FTO is a cumbersome and time-consuming procedure. Often officials will seek to restrict counterdelivery commitments to the original importing FTO or the industrial ministry to which the FTO is responsible. Some countries though, such as Poland, have specialized FTO's, i.e., DAL, which will arrange the linkage of counterpurchases among several FTO's.

Generally, the more centralized the administration and clearer the CT policy guidelines of the country, the easier it is for the Western firm to engage in CT. In Yugoslavia, for example, the decentralized system and lack of clear policy guidelines involve Western firms in tedious and lengthy negotiations while searching for suitable counterpurchases. In China, the lack of experience in CT has led to a cautious and vague approach to CT policy formulation, making the problem even worse.

#### D. Negotiations

Negotiating techniques and styles vary among countries requiring countertrade and the FTO's of each country. In Hungary and China CT demands and negotiations are clear-cut and simple, while in Romania CT demands are complicated and may not be introduced until the very last minute of signing a contract (to extract more favourable terms). In most countries, initial and final CT percentages for compensation and counterpurchase deals can diverge substantially -- except in the German Democratic Republic (GDR), where there is very little haggling about the proportion of CT requirements. Usually, if the FTO is acting under strict ministerial guidelines for CT percentages and export quotas, Western firms will not be able to reduce CT percentages substantially or choose to pay the prescribed penalty for non-fulfilment of the CT obligation.

Western firms should try to establish close and permanent business relations with FTO personnel to get an indication of both the priority of the Western imports and the necessary CT level required to conclude a deal. In the actual negotiations, Western firms should ascertain very early whether the deal will involve CT obligations and how much these requirements are likely to be, only quoting final prices for their goods after the terms, conditions and product range offered for CT are identified. This strategy is essential since, if a firm chooses to accept a CT deal, its price quotation will have to reflect the added costs of the CT obligation.