COUNTERTRADE

DEFINITIONS

Countertrade, is a generic term encompassing all transactions where a sale to an importer (public or private sector) is conditional upon a reciprocal purchase or undertaking by the exporter. The common forms of countertrade include barter, counterpurchase, advance purchase, offsets, buyback and bilateral agreements. The terms and definitions provided are based on a review of widely accepted definitions.

Barter

Barter is commonly referred to as payment in kind. Therefore, it does not involve the use of money and is bound by a single contract between the trading partners, which specifies the quantity of goods to be exchanged. In such transactions, third parties can be involved, but are precluded from signing the barter agreement. A variation of barter may call for partial payment in goods, with the balance in hard currency.

True barter deals are uncommon because of many difficult issues that are primarily due to the valuation of goods relative to each other. These issues include: variations in the quality of the merchandise; variations in quantities involved in each shipment; the difficulty of achieving a 100 per cent balance of trade on both sides; and prices agreed to under the contract differing substantially from prices on the world market. (This is because each party wants to establish an asking price in relation to the price asked by the other.)

Counterpurchase

Counterpurchase is the most common form of countertrade. The exporter undertakes to purchase goods or services from the importer to a given percentage of the value of the sales contract. This can range from 5 per cent to more than 100 per cent depending on the circumstances. The commitment may also vary from "best efforts" to a fixed percentage with a penalty clause if conditions are not met.

A major feature of counterpurchase is that two separate contracts should be signed and linked: one for the sale by the exporter and the other representing the counterpurchase obligation which can be fulfilled over a certain period of time. This period can be negotiable or fixed depending on the circumstances. Unlike barter, each contract should have its own financing arrangements and not involve payment in kind. This overcomes the valuation problems found in barter and enables the exporters to be paid on delivery of their goods. In addition, exporters are given a certain amount of time to find a suitable product for their purchase obligation. It is common for such obligations to be transferred to a trading house by the exporter. (Further comments on the advantages of separate contracts in counterpurchase can be found in the section on contract considerations).

Advance Purchase

The major purpose of advance purchase is to secure payment in advance for the exporter's goods and thereby eliminate the risk of non-payment. The hard currency generated by the advance purchase is placed in an escrow account outside the customer's country to ensure access to it.

Advance purchase is a technique increasingly being used in dealing with severely indebted countries. This technique can be used to generate hard currency for the importer.

The major problem in this approach is identifying or, in some cases, assisting in developing appropriate products to use for the advance purchase. In many cases, the goods being exported must be considered incremental to existing trade in order to receive approval from the central authorities for the advance purchase. The introduction of new products offshore or new markets for existing exports seem to be normal or sufficient criteria to justify advance purchase.