

CASE STUDIES OF INTERNATIONAL FIRMS

The majority of countertrade arrangements with Eastern European countries, the U.S.S.R. and China involve medium to large multinational corporations, particularly those based in Western Europe and Japan. Due to the complex nature of compensation arrangements, i.e., large dollar volume, 10 to 20-year maturity period and the transfer of sophisticated technology, know-how and equipment coupled with the preference of these Eastern Bloc countries for dealing with reliable, financially stable Western firms with world-wide marketing networks, the large multinational firm is the ideal vehicle for this type of business transaction. For purely counterpurchase arrangements, the size of Western firms ranges from small to large.

The following eleven brief case studies are presented primarily to provide an overview of the nature and extent of the involvement of international companies in all types of countertrade arrangements.
(1)

INTERNATIONAL HARVESTER (IH) - HUNGARY

Business between IH and the Hungarian organization, Raba, began as a licensing and sourcing arrangement whereby licensed axle production was restricted to the expected needs of the Hungarian market. Later IH entered an agreement for Hungary to supply one-third of its requirements for medium duty truck axles. International Harvester gave Raba a "target price" without disclosing the prices of the other suppliers. Success on the high quality Hungarian-produced axles led to a cooperation deal on farm machinery. The total long-term cooperation amounted to a ten-year turnover of approximately US\$1 billion.

OCCIDENTAL PETROLEUM - U.S.S.R.

In 1974 Occidental Petroleum signed a barter agreement with the U.S.S.R. to exchange fertilizer materials over a 20-year period, starting in 1978. Between 1980 and 1987, Occidental will deliver 1,000,000 tons of superphosphoric acid a year and take back 2.1 million tons of ammonia, 1 million tons of urea and 1 million tons of potash annually. The first shipment of 350,000 tons of ammonia arrived in the U.S.A. in January, 1979. Prices governing the exchange are to be set periodically on the basis of world prices, with the Soviets giving Occidental a small discount on what it is buying. During the life of the deal, approximately US\$10 billion worth of materials are expected to move in each direction.

LEVI STRAUSS & CO. - HUNGARY

In 1977 Levi Strauss & Co. sold Hungary a turnkey plant (US\$400,000) and the design of its blue jeans. In payment it will receive a portion of the plant's production. Levi gets royalty on the 40 per cent marketed in Hungary.

MCDONNELL DOUGLAS CORPORATION - YUGOSLAVIA

On the sale of DC-9 passenger jets to Yugoslavia, McDonnell Douglas Corp. agreed to a partial counterpurchase payment consisting of canned hams, tools and other products. The corporation's CT in Yugoslavia now includes the company encouraging its employees to fly on JAT-Yugoslav airline and to vacation on the Adriatic seashore of that country.

(1) For an exhaustive listing of CT agreements with Eastern Bloc countries, the U.S.S.R. and China, see Appendix B, pp. 78-102, in Countertrade Practices in East Europe, the Soviet Union, and China.