Countertrade Primer for Canadian Exporters

External Affairs Canada
Affaires extérieures Canada

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INTRODUCTION

The object in preparing this primer is to arm the Canadian exporter with a basic knowledge and understanding of countertrade and to give some direction on additional sources of assistance prior to being confronted with countertrade demands. The text has been structured so as to provide the exporter with the following:

— an understanding of the different forms of countertrade;
— global and Canadian perspectives on its growth and impact;
— suggested ways and means for exporters to better cope with countertrade.

This is supplemented by a list of trading houses offering services in this area (Appendix I), and profiles of the countertrade practices of 44 countries (Appendix II).

DEFINITIONS

Countertrade, as used in this text, 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 upon a review of widely accepted definitions.

A) 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 due to a myriad of problems primarily attributable to the valuation of goods in terms of each other. These problems include variations in the quality of the merchandise; quantities involved in each shipment; the achievement of a 100% balance of trade on both sides; and prices agreed to under the contract differing substantially from prices on the world market because each party wants to establish his asking price in relation to the price asked by the other.

B) Counterpurchase

Counterpurchase is the most common form of countertrade in which the exporter undertakes to purchase goods or services from the importer to a given percentage of the value of his sales contract. This can range from 5% to over 100% 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 exporter to be paid on delivery of his goods. In addition, the exporter is given a certain amount of time to find a suitable product for his 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).

C) 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, to circumvent foreign exchange regulations or to avoid time-consuming, cumbersome, central bank foreign exchange procedures.

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 have to 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.

D) Offsets

Offsets are normally found in large capital projects or where there is substantial government procurement of military goods. They are normally required of the exporter in such cases so that some incremental industrial or economic benefit is derived from the expenditure.

Offset activities are normally considered to be directly related to the product or services being purchased. In a number of cases, counterpurchase of unrelated goods or commodities, promotion of tourism, and the export marketing of unrelated products may form part of an "offset" package, but they are considered to be indirect offsets. Direct forms of offsets include the following:

Coproduction — Overseas production based upon a government-to-government agreement that permits a foreign government or producer to acquire the technical information and know-how to manufacture all or part of an item. It includes government-to-government licensed production. It excludes licensed production based upon direct commercial arrangements by manufacturers.

Licensed Production — Overseas production of all or part of an item of equipment based upon transfer of technical information and know-how under direct commercial arrangement between a manufacturer and a foreign government producer.

Sub-contractor Production — Overseas production of a part or an item of equipment. The subcontract does not involve the license of technical information or know-how and is usually a direct commercial arrangement between the manufacturer and a foreign producer.

Overseas Investment — Investment arising from the offset agreement, taking the form of capital invested to establish or expand a subsidiary or joint venture in the foreign country.

Technology Transfer (other than licensed production and coproduction) — Transfer of technology occurring as a result of an offset agreement that may take the

form of
- (i) research and development conducted abroad;
- (ii) technical assistance provided to the subsidiary or joint venture (see Overseas Investment above);
- (iii) other activities under direct commercial arrangement between the manufacturer and a foreign entity.

The forms of the offset in individual contracts may vary according to the needs and desires of the procuring country. The opportunities for undertaking offsets may also be limited by the level and sophistication of the industrial base and the country's comparative economic advantages.

E) Buyback

Buyback is most commonly found in the sale or modification of capital plant and equipment. It can involve either partial or full payment by means of the resultant product or a commitment to purchase the resultant product. Such deals are normally for large sums and involve a longer fulfillment period, anywhere from 5 to 15 years. Buyback percentages of the original sale may vary. Buyback commonly involves large-scale corporations with the marketing structure and internal capacity to absorb the buyback obligation. The contractual arrangements may be similar to counterpurchase, with the two transactions linked but financially separate.

F) Bilateral Agreements

Bilateral trade and payments arrangements are a systematized form of barter, binding all or a certain amount of trade between two countries. This may arise from the lack of hard currency of one or both countries. These trade balancing arrangements commonly make use of clearing accounts, which permit trade to take place without the need for foreign exchange and which are normally balanced after a pre-determined time. Such agreements are common amongst Comecon and less-developed nations.

From time to time, trade under bilateral agreements may become severely imbalanced and difficult to clear, primarily towards the end of the agreed-upon accounting period. Under such circumstances, one country may owe the partner an outstanding amount of goods, but may be unable or unwilling to supply. An exporter wishing to sell goods to the partner can access this surplus owing through switch trading, usually through a switch specialist, with the sale being credited to the owing country's account. Normally, however, the goods sold must be from the previously agreed-upon list of goods to be exchanged. Payment is made by the owing country through the switch specialist (less a fee) to the exporter.

GLOBAL COUNTERTRADE PERSPECTIVE

The current and rapid developments in countertrade have their origin in the ten-fold increase in oil prices which took place between 1973 and 1980, which saw the Western banking system awash with petro-dollars. All through the 1970's these petro-dollars were recycled to East European and developing countries to finance industrial development projects (and in some cases, oil imports) with the end result that they were soon saddled with huge external debts. Towards the end of the 1970's, they started to experience difficulties in meeting their loan-servicing obligations. Their already precarious position was further accelerated by the dramatic increase in interest rates of the early 1980's, the concurrent global economic recession, and the resultant drop in commodity prices. As commodity exports have been major generators of foreign exchange for many developing nations, the drop in prices further aggravated their situation.

As a result of these conditions, East European countries began in the 1970's to increasingly use countertrade as a practical way of generating some or all of their hard currency needs for new industrial projects. It was also seen as a way to foster exports to the West and to minimize the outlay of their hard currency. This concept, which was considered successful, was soon copied by a number of underdeveloped and developing countries.

Various press reports cite the amount of countertrade as being anywhere from 1-40% of global trade, or somewhere in the vicinity of $15-900 billion (US). The reasons for the tremendous variations in global estimates are caused by the lack of agreement on what constitutes countertrade, the lack of data on transactions and the secrecy that surrounds its practice. A conservative estimate of about 10% of world trade, developed by Business International of New York, appears to be the most widely accepted figure.

Any full examination of global countertrade needs to be conducted on a regional basis. This would include the following factors:

1. East-West countertrade between Organization for Economic Co-operation and Development (OECD) countries and Eastern bloc countries;
2. North-South countertrade between OECD and less-developed countries (LDCs) or newly-industrialized countries (NICs);
3. South-South countertrade between LDCs and NICs;
4. East-East countertrade between Eastern bloc countries;
5. East-South countertrade between Eastern bloc countries and LDCs or NICs;
6. North-North countertrade between OECD countries. This is not always recognized as countertrade since it is associated with military procurement.

The statistics that should be of particular relevance to exporters are those pertaining to the East-West and North-South countertrade. These represented 20% and 6% of OECD exports to these regions, respectively, in 1984.

It is evident that numerous forms of countertrade are being currently practised for a variety of reasons. Participating countries (some 88 identified in a study conducted by the New York Foreign Trade Council) vary in their experience with, and results from, countertrade and are continually refining their policies or legislation to extract the maximum benefits (actual or perceived) from the practice. These changes in the direction and growth of countertrade, and the continuing indebtedness of developing countries, will ensure that countertrade will remain a dominant feature of global trade for the forseeable future.

CANADIAN COUNTERTRADE PERSPECTIVE

While countertrade may affect 10% of world trade, Canadian exports have been minimally affected to date. The key factors which have kept this impact minimal include the following:

1. the dominance of the U.S. and other OECD countries as export markets for Canadian goods;
2. the predominance of food and raw material exports in Canada's exports which, to date, have not been subject to extensive countertrade pressures.

After applying the estimates of 20% countertrade in East-West trade and 6% in North-South trade, using our knowledge of countertrade experiences of Canadian exporters, and studying preliminary results of an internal countertrade study currently underway, it is estimated that approximately $600 million of 1984 Canadian exports involved some form or degree of countertrade. This was equivalent to 0.5% of total Canadian exports.

While these figures are relatively small, most of the demands have fallen on a core grouping of Canadian industry sectors:

1) transportation equipment — air, rail and urban;
2) telecommunication, defence and other high technology products;
3) resource and energy extraction, processing and generation equipment;
4) agricultural and forestry equipment;
5) engineering and consulting services.

For companies in these sectors, countertrade will grow at a significant rate as they increase efforts to penetrate foreign markets. It is within this context that we recognize that to remain competitive, we must be prepared to adequately address countertrade demands.

GOVERNMENT POLICY ON COUNTERTRADE

From a multilateral policy perspective, Canada has traditionally adopted the view, in international forums and in concert with our major trading partners, that countertrade

- is a regressive trade practice which distorts the multilateral flow of goods and services;
- prejudices the export opportunities of small and medium-sized firms;
- deals inefficiently with the economic and financial constraints it attempts to resolve;
- manifests a regrettable trend to bilateralism; and
- tends to remove trade from the purview of normal GATT disciplines through its lack of transparency.

From a bilateral relations viewpoint, Canada has always made it clear to its trading partners that the Government of Canada will not become directly involved in countertrade deals. It has been the government's position that the initiative and responsibility for entering into countertrade rests with exporters alone.

DEALING WITH COUNTERTRADE

A) Developing a Corporate Policy and Organizational Response

While there are numerous alternatives for coping with counter-trade demands and the disposal of countertrade goods, such action should be consistent with an overall *prior* evaluation of the anticipated type, level and frequency of countertrade to be encountered. Such an evaluation should be taken in the context of the firm's long-term export marketing strategy, and should include answers to the following questions:

1. Does your marketing strategy include countries that currently require countertrade? Do the practices or legislation affect your customers or product market? Are there any trends or developments in these countries that may lead to changes in, or to new, countertrade requirements?
2. What form of countertrade is required? Counterpurchase? Offsets? Buyback? Barter? Other?
3. What is the countertrade strategy of your competitors?
4. What will be the effect on your sales to existing markets or to new markets if your policy is not to engage in countertrade?

Ideally such an analysis should be undertaken in every existing or target market, if only in a cursory manner. The findings will provide you with at least a preliminary assessment of the countertrade demands that might be expected and provide a basis for further internal investigation.

Answers relating to the type, level and frequency of countertrade anticipated will guide you in determining the type of organizational response required. Frequency and type of countertrade will determine the sophistication and resources required to cope with it. This may range from an internal focal point, or "expert", on countertrade to co-ordinate company activities and develop contacts with various trading houses, government services and other resources, to the structuring of a related trading house to undertake all aspects of counterpurchase, buybacks, offsets, etc.

Long-term North American trends indicate a movement to the development of greater internal expertise and less reliance on trading houses, largely because of the costs involved and their effect on price competitiveness. Internal focal points can be located in the procurement, financing, or marketing areas of a company or as a separate unit under senior management. Regardless of where it is located, countertrade studies and publications have emphasized the need for senior level support for this function to ensure it can effectively carry out its mandate and receive co-operation from other corporate divisions. For example, resistance may arise from procurement areas when asked to consider different sources of supply. A predetermined mandate for this function is therefore essential.

B) Preparing for Individual Countertrade Demands

To be used as an effective tool, countertrade and the considerations surrounding it in a particular circumstance should be researched as thoroughly as possible prior to official contact with the potential customer. This will place you on a par with your competitors and will allow the incorporation of the cost of countertrade into your selling price. The following considerations and questions should be addressed in carrying out such research:

(i) *Country Market Intelligence*

1) What have been the countertrade practices of the country in the past? (See Appendix II for countertrade profiles of 44 countries.)
2) Has the countertrade been implemented through legislation or policy formulation? In either case, has past experience demonstrated that some of the parameters are negotiable?
3) What are the objectives of the customer for using countertrade and how can these best be addressed?

(ii) *Situation Assessment*

Under conditions of negotiable countertrade requirements, an evaluation should be made of the following factors:

1) uniqueness of your product or technology;
2) priority assigned to its import;
3) price competitiveness;
4) financing considerations;
5) actions of competitors: Are they offering countertrade? If so, how much, what kind, to what level, etc.? How is their offer perceived by the buyer?

C) Fulfilling Countertrade Obligations

A number of strategies can be followed in the fulfillment of countertrade obligations. These can include purchase of goods for in-house use; purchase for resale; and the engagement of third parties to assume the countertrade obligations.

(i) *Purchase for in-house use.*
Counterpurchased goods such as raw materials, semi-processed goods or components can be used for internal production. In addition, opportunities may exist for the sale of counterpurchased goods to sub-contractors or customers. There are, however, a number of problems inherent in such an approach:

a) **Internal resistance to new sources of supply.** Company buyers and procurement officers may be reluctant to change or try new suppliers in order to satisfy company countertrade requirements. Senior management direction may be required to rectify this situation.

b) **Availability of quality goods at competitive prices.** Many countries lack the production capability and industrial base or economic infrastructure to supply these needs on an on-going basis. Upgrading facilities in the buying country is a strategy tried by some which has led to stable and profitable long-term relationships. Such approaches are favoured by developing and under-developed countries.

(ii) *Purchase for resale*
This strategy may involve the resale of goods taken in countertrade by the exporter himself. Obvious prerequisites for such an undertaking are the necessary marketing skills and distribution network. This function is frequently performed by in-house trading units for products related (or unrelated) to the company's normal line of business. The use of in-house trading units can reduce the costs of countertrade if sufficient volume exists. Nevertheless, the risks of handling unfamiliar products or acquiring the expertise to do so must be taken into consideration.

(iii) *Using trading houses*
One of the options available to a Canadian exporter in dealing with a countertrade situation is to seek the assistance of a trading house to discharge the responsibility for the counterpurchase commitment. An experienced third-party intermediary can be of great assistance in concluding a profitable sales contract. There is a certain convenience in turning over the countertrade portfolio to another entity and there is some truth in the opinion that manufacturers should not buy products that they do not need, use or have confidence in. A trading house will have a wide knowledge of dealing in a variety of products. Its sales network for countertrade goods will be already established. A trading house can assist in bid preparations by giving prompt countertrade cost estimates (i.e., subsidies and fees required). Selecting the proper intermediary is not a simple process. To assist exporters, the following procedure should be followed in dealing with trading houses:

1. Contact should be made with a trading house at the preliminary stages of negotiation, prior to entering into any discussion on price.
2. Review the trading house's geographical distribution of trade. In circumstances where the counterpurchase volume is large, it is advisable to negotiate with a trading house that has a broad distribution network.
3. Where possible, it is recommended that a trading house that has a continuing presence in the country that you are negotiating with be selected.
4. Request a serious indication from the trading house. The trading house will then respond by providing the service costs to be included in your pricing.
5. Comparison shop, since the range of services and costs may vary greatly between trading houses.
6. Although some trading houses may be willing to directly participate in countertrade negotiations, it is not advisable because you immediately make the country aware that the countertrade goods will not be purchased for your own country's use.
7. The only time fees are paid to a trading house is when evidence has been provided that the counterpurchase obligation has been fulfilled. The exporter then pays the service costs which normally consist of a commission plus a subsidy. The commission covers such things as financing charges, cost of penalty guarantee, general operating expenses, and profit. The subsidy represents the difference between the purchase price and the price at which the goods can be sold to a third party.

An alphabetical listing that contains pertinent information to assist exporters with the selection of a trading house for countertrade purposes is included in Appendix I.

(iv) *Consultants and banks*
There are numerous banks and consultants which can provide assistance to exporters.

Banks offer countertrade services in the form of information on the various forms of countertrade and specific practices in countries. They are also in a position to establish escrow accounts, provide bridge and pre-export financing, assist in negotiating countertrade arrangements, and locate buyers or appropriate trading houses.

Consultants can also be of assistance where the human resources of a company are insufficient to take on the role of a countertrade co-ordinator, or "focal point". Consultants can be engaged to provide or supplement this service or arrange any of the other services required to address countertrade demands.

CONTRACT CONSIDERATIONS

Experience has taught many exporters that small legal points can create serious difficulties if they are not drafted into the countertrade contract with clarity and precision. Countertrade transactions, primarily of the counterpurchase and buyback variety, consist of the following related but separate legal instruments: (1) the original commercial contract; (2) the countertrade contract which sets out the terms and conditions of the counterpurchase commitment; and (3) the protocol that links the two contracts. To assist in drafting the countertrade contract, the various contractual considerations that should be negotiated to address the chief concerns unique to countertrade are set out.

A) Separation of Contracts

One of the least understood aspects of a counterpurchase transaction is the importance of the two linked, but separate, commercial undertakings. There are a number of good reasons for the use of two separate contracts.

One of the most crucial reasons is that bankers, in most instances, will insist that the first agreement be free of any conditions related to counterpurchase. They will also look at the borrower on his independent ability to repay the loan and will not normally provide credit where the ability to repay the loan is conditional upon the performance of a third party, or upon sales of the counterpurchased goods. Two contracts allow greater flexibility in the performance of contract stipulations. For example, even though an exporter receives payment for his goods over a two-year period, he may have up to five years to fulfill his countertrade commitment.

Another reason is that two contracts ensure that payment for deliveries under the commercial contract is not encumbered by the obligation to accept counterdeliveries. As well, export risk insurance and financing from export agencies such as the Export Development Corporation are not available when payment is called for in goods. Finally, if a trading house is engaged to undertake the countertrade obligation, the terms and conditions of the primary contract will remain secret under separate contracts.

B) Pricing

Always quote one price only, which includes your countertrade costs, while indicating the possibility of a slight price reduction if countertrade is not involved. In East European countries, negotiations take place at the lower level of management while the final decisions are rendered at much higher levels. Some exporters have found that, after committing themselves to a final price and thinking they had an agreement, a more senior level of management insisted that countertrade be incorporated in the transaction.

C) Transfer Clause

The freedom for the exporter to transfer his countertrade obligation to a third-party intermediary of his own choosing is important. This clause will allow the exporter to pass his countertrade obligation on to a trading house or other appropriate third party without the interference of the original purchaser. In order to have complete freedom in the selection of an intermediary, make sure that the wording allows for the transfer of the counterpurchase obligation to *any* third party.

D) Linkage Clause

This condition facilitates access to a range of countertrade goods. When dealing with an East European country, it is very important to have the Foreign Trade Organization (FTO) mentioned in the countertrade agreement since it provides an address to contact. Normally, there is a requirement for counterpurchase from the same FTO that made the purchase from the Western supplier. They will reluctantly agree to allow counterpurchase from another FTO on the condition that a commission is paid to them. Great care should be utilized in the selection of countertrade goods when utilizing a trading house as your intermediary since it will have a bearing on service charges. For example, there will be a lower charge for easily marketable goods, a higher charge for more difficult to market merchandise. It is preferable to work with a trading house prior to the final selection of goods.

E) Credit Clause

This condition applies to transactions in which, despite serious efforts by the exporter, the countertrade goods cannot be delivered as agreed by the countertrade partner, or are of less-than acceptable standard. A credit clause allows the exporter to benefit from having attempted to source all available countertrade goods, thereby reducing the overall countertrade obligations according to an agreed formula.

F) Non-fulfillment Penalty

An exporter, especially when dealing with East European countries, is usually faced with the requirement that a penalty payment be made if the countertrade commitment is not fulfilled. If an exporter wishes to continue exporting to an East European country, it is not advisable to abdicate the countertrade commitment by paying the penalty fee. This causes difficulties for the FTO manager since the fee earned will not accrue to the FTO account while revenues from exports do.

It is important to be aware that the payment of a penalty does not necessarily release a company from fulfillment of the countertrade obligation, since penalties are devised for non-performance within certain time periods. Some exporters have been known to pay as many as three penalties on the same counterpurchase contract. Therefore, the wording in the contract should stipulate that on payment of a penalty, the exporter is given final release from fulfillment of the countertrade commitment. It is also important that an arbitration clause be included in the contract stipulating the law that will prevail in the event of a dispute. Apparently, some East European countries are quite fair and have been known to rule in favour of the exporter.

Frequently, the FTO will require an unconditional guarantee from a Western Bank in the form of an irrevocable letter of credit (I.L.C.) for the total amount of the penalty. This guarantee has been called in the past even though the countertrade commitment has been fulfilled. To eliminate the difficulties associated with retrieving the funds an exporter, when paying for the counterpurchased goods, should have included as part of the I.L.C. documentation, a signed statement by the FTO that the counterpurchase commitment has been fulfilled.

G) Pricing of Countertrade Goods

In transactions that involve a commitment to purchase, it is important to always include in the counterpurchase contract a "normal prevailing international price" stipulation. Usually, this entails a comparison of the prices paid to suppliers by other customers in Western markets for the same products. In the absence of such an agreement, an exporter may be compelled to accept counterdeliveries at grossly inflated prices. In addition, there are situations where the goods cannot be delivered. In such circumstances, an exporter can agree to accept lower quality goods on condition that there is a discount from the normal prevailing international price.

H) Fulfillment of Countertrade Commitment

The exporter should attempt to negotiate as long a period as possible within which to purchase countertrade goods. This will afford the necessary time to locate customers and to reduce storage costs. East European countries are now attempting to have counterpurchase requirements met in a calendar year to generate more foreign exchange. However, negotiations can normally lead to a time period for counterpurchase extending beyond the period of financing for the original export.

I) Letter of Release

Upon fulfillment of the countertrade commitment, a letter releasing the exporter from further obligations should be issued by the contract partner. Frequently, East European FTO's do not issue letters releasing exporters from their obligations. Under these circumstances, it is advisable to send the FTO copies of the invoices, bills of lading and a bank debit note along with a letter advising that if you do not hear from them by a certain date, the obligation will be considered fulfilled.

J) Negative File

As it is generally thought that paying a non-fulfillment penalty can prejudice an exporter's hopes for future business, it is important to keep track of failed attempts to source countertrade goods. This "negative file" can keep an exporter in good standing with his countertrade business partner and forms the basis for claims under any credit clause (as described above). This also allows for a good case to be made to prolong the time period for fulfillment of the counterpurchase agreement.

MITIGATING RISK IN COUNTERTRADE

There is a lack of understanding of how insurance should be used to mitigate risk in countertrade transactions. The need for insurance arises mostly under three forms of countertrade: counterpurchase, barter and partial compensation. In each case the need for insurance, be it political or credit, can be minimized through the proper negotiating and drafting of contracts.

A) Counterpurchase

An exporter can transfer risks associated with the counterpurchase commitment when he chooses to transfer the rights and obligations under his counterpurchase agreement to a trading house. However, if an exporter undertakes the counterpurchase commitment on his own, then he should mitigate his risks by taking all the necessary contractual precautions and, if required, availing himself of insurance facilities from the private sector.

Normally, in any counterpurchase arrangement, there are two separate transactions: one for the export and one for the counterpurchase commitment. Generally, the transactions have separate financing arrangements. Therefore, quantifying the risks associated with counterpurchase normally entails an assessment of the potential costs of late-delivery or non-delivery of the goods to a third party. In situations where there is a substantial price subsidy, contractual arrangements can frequently be negotiated with the purchaser of the products to accommodate late-delivery. However, in situations where this is not possible, it is advisable to seek insurance coverage.

B) Barter and Partial Compensation

In the case of barter, payment is made entirely with goods. Partial compensation consists of partial defrayment of the payment in goods, with the remainder in hard currency. There are a number of ways to minimize the risk of non-payment in these transactions.

One should not export until the goods for payment have been received and the resultant foreign exchange generated put into an escrow account. A stand-by letter of credit, which could be accessed in the event of late or non-delivery of the goods, should be negotiated for protection. If, for a variety of reasons, the exporter is not able to negotiate some form of recourse, then it would be in his interest to avail himself of whatever insurance protection is available. However, the insurance company would, in all likelihood, insist on a guarantee of the foreign exchange availability from the central bank of that country.

C) Insurance Facilities

The Export Development Corporation, along with all other government-supported insurance agencies, will not cover exports which depend on countertrade for payment. They state that coverage is not available where payment for exports is to be, in whole or in part, in goods, or where payment is dependent on a purchase or import contract. However, there are a number of companies in the private sector who are prepared to underwrite risks associated with countertrade. Some Canadian companies that can provide these facilities are the following:

Reed Shaw Stenhouse Ltd.
P.O. Box 250
Toronto Dominion Centre
Toronto, Ontario M5K 1J6
(416) 868-5692
Contact: Mr. Jim Edwards, Vice-President

Marsh & McLennan Ltd.
P.O. Box 58
First Canadian Place
Toronto, Ontario M5X 1G2
(416) 868-2780
Contact: Mr. Tony Fusco

ADDITIONAL INFORMATION

The Department of External Affairs established the Trading House and Countertrade Division (TEH) in December 1984 with a mandate to develop an information program to assist exporters in dealing with the intricacies of countertrade. This Countertrade Primer was prepared by this Division.

The Trading House and Countertrade Division (TEH) is located on the 5th Floor, Tower C, Lester B. Pearson Building, 125 Sussex Drive, Ottawa, Ontario KIA OG2. You are invited to telephone (613) 996-1419, or to write, for assistance on countertrade matters.

APPENDIX I
LIST OF TRADING HOUSES

NAME	LOCATION	PRINCIPAL OFFICERS	SIZE	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Alcon (Compensation Trading) Ltd.	4 Audley Square London SW1Y 5DR U.K. Tel: (01) 499-2591/2	P. Jankovic	Not available	Countertrade operations on behalf of client	All products considered	World-wide	
Allgemeine Finanz-udd-Waren-Treuhand AG	Schottenring 12 A-1013 Vienna Austria Tel: (0222) 633-6060	Dr. A. Waldstein	Capital: Schillings 50M Employees: 40	Intermediary services in international trade, including countertrade, turnkey projects, forfeiting, switch transactions, export leasing	Chemicals, metals, ores, wood, pulp, paper, cardboard, food products, oil. Other products also considered	No territorial limitation, but special links to Romania through joint ownership with Terra (Bucharest) of Trawe S.A. (Geneva), a firm providing specialized financial services	Wholly owned subsidiary of Creditanstalt-Bankverein of Vienna Representative office in Cairo
Andre & CIE SA	7, ch. Messidor CH-1000 Lausanne Switzerland Tel: 201-111	Not available	Not available	International trade services, including promotion of industrial projects, joint trading operations, short and long-term financing, switch and barter operations	Agricultural products: grain, vegetable oils, soya and sunflower seeds, coffee, tea, rice, processed foods, fodder; textiles; industrial products; machine tools	All parts of Europe and many other areas of the world	Privately owned trading house. Branch office in FRG (Bad Soden)
Anglo-Austrian Trading Co. Ltd.	10, Haymarket London SW1Y 4BG U.K. Tel: (01) 839-4161	K. Stern J.G. Baer	Value of turnover: £34M (1984) Employees: 25	Countertrade operations	Chiefly chemicals, but other products (except machinery) accepted	GDR, U.S.S.R.	Company established in 1946
Arcode Ltd.	City Gate House 39/45 Finsbury Sq., London EC2A 1PX U.K. Tel: (01) 638-8585	A.J. Andrews	1980 sales turnover in excess of 3M pounds	Consultation services, liquidation of countertrade goods	Chemicals and other industrial products	Romania	Subsidiary of Chimiport-export (Bucharest) Markets Romanian industrial goods in U.S. and Ireland
Bafag AG	Lindwrumstrasse 11, D-8000 Munich 2, FRG Tel: 236-051	Dr. Peter Alojov	Not available	International trade services, including countertrade, switch operations, financing	Imports of foodstuffs, cotton, yarns, raw textiles, electric motors, transformers, other industrial goods wood products, glassware	All countries of Eastern Europe	Privately owned trading house Subsidiaries in Luxembourg, Munich
Bank of Boston International	767 Fifth Ave New York, N.Y. U.S.A. 10153 Tel: (212) 350-0785	David S. Cookson	Not available	Countertrade consultancy and advisory services	All products	World-wide	Backed by First National Bank of Boston. Has initiated system of generalized countertrade credits
Berliner Absatz Organisation (BAO)	Hardenbergstrasse 16/18, D-1000 Berlin 12 West Berlin FRG Tel: 30 31801	Not available	Not available	Promotion of East-West trade, including countertrade advisory services; maintains active list of several hundred Berlin firms providing some form of countertrade service	Not applicable	All Eastern European countries	BAO operates under the aegis of West Berlin Chamber of Commerce
The Bowater International Trading Co.	14 Grosvenor Place, London SW1 7HH, U.K. Tel: (01) 235-0111	T.G. Antipas	Not available	All forms of countertrade	Wide range of products covered (industrial products, consumer goods, foodstuffs, ships)	In Eastern Europe: Bulgaria, USSR, Hungary, Romania, Yugoslavia	Wholly-owned subsidiary of Ralli Brothers Ltd., a member of the Bowater Group
Centro Internationale Handelsbank AG	Tegetthoffstrasse 1, A-1015 Vienna, Austria Tel: (0222) 524-5100	Dr. G. Vogt	Capital: Schillings 168M Employees: 64	Banking and commercial, including countertrade. Also project tracing, switch transactions, forfeiting, syndication. Trades on own account	Chemicals, metals, ores, crude oil, phosphates, food products. All products considered	No territorial limitation, but has concluded an evidence account agreement with the Romanian Ministry of Foreign Trade and International Economic Cooperation	Owned by Bank Handlowy w Warszawi (Poland) in partnership with Austrian and other Western banks

NAME	LOCATION	PRINCIPAL OFFICERS	SIZE	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Coe & Clerici SpA	Via Martin Piaggio 17 I-16122 Genoa Italy Tel: (010) 54-891	Jack Clerici, President, Aldo Carmiganani	Capital: 2.5B Lira	International trade, including counter-trade, on own account	Raw materials of Soviet origin: coal, coke, metals, oil products; chemical products; agricultural produce	U.S.S.R.	Subsidiaries in Lausanne, Milan, New York Maintains permanent office in Moscow
Compagnia Generale Interscambi SpA (COGIS)	Corso Venezia 54 Cas. Post. 10176 I-20121 Milan Italy Tel: (02) 7742	Dino Gentili	Capital: 1.08B Lira	Consulting services, including market research, preparation of studies; international trade, including liquidation of counter-trade obligations of clients through own channels	Minerals, metals, timber, foodstuffs, textiles, chemicals, machinery and equipment	Eastern Europe (esp. GDR, Poland, U.S.S.R.) and developing countries	Backed by major Italian firms, including Fiat/RIV-SFK, Montedison/Snia Viscosa
Comex Aussen-handelsgesellschaft mgH	Immermannstrasse 40, D-4000 Dusseldorf, FRG Tel: 36-171	Not available	Not available	International trade, including conduct of countertrade operations	Iron and steel and related products, machinery and equipment for various industries	Eastern Europe, but especially Romania	Maintains representative offices in Bucharest and Sofia
Contritrade Services Corp.	One State Street Plaza, New York, N.Y. U.S.A. 10004 Tel: (212) 248-7800	Barry F. Westfall	Not available	Provides financing for countertrade and other non-traditional forms of international trade	None	None	
CSI International Corp.	800 Second Ave New York, N.Y. U.S.A. 10017 Tel: (212) 687-5600	William D. Schachter	Not available	Countertrade services, including liquidation of counter-trade obligations	Consumer goods and services	None	
Deerfield Communications Corp.	210 East 39th St. New York, N.Y. U.S.A. 10016 Tel: (212) 685-0066	Fred B. Tarter, President	Average sales turn-over in excess of $100M	Liquidation of countertrade obligations	Especially consumer goods	None specified	International operations linked to large-scale domestic barter services
Dreyfus Herschtel & Cie	3, avenue du Coq F-75009 Paris France Tel: 280-6166 874-0745	Not available	Not available	Performance of countertrade operations for client firms	Chemicals, agricultural products, food-stuffs, consumer goods	Eastern Europe, but chiefly Poland, U.S.S.R.	
F.J. Elsner & Co.	Kohlmart II A-1010 Vienna Austria Tel: (0222) 526-771 111-949	Dr. W. Ambichi	Employees: 16	Agency and countertrade services	All products, but especially foodstuffs, and food raw materials, hardware, house and garden utensils	Eastern Europe	Majority interest in firm held by Genossenschaftliche Zentralbank AG (Vienna) Branch offices in Innsbruck, Hong Kong and Singapore
Evidenzburo fur Aussenhandels-geschafter (EFAG)	Brucknerstrasse 4, A-1040 Vienna Austria Tel: (0222) 651-306 655-131	Friedrich Hartig	Not available	Provides advice, arranges contacts; pools the interests of members with respect to counter-trade and switch operations	All products	Eastern Europe	Co-founded as non-profit organization by Austrian Federal Chamber of Commerce, Ministry of Trade and Industry, and Association of Industrialists
Eurintrade	3, rue Montoyer B-1040 Brussels Belgium Tel: 513-6826	Not available	Not available	International trade, including counter-trade on own account	Plant, equipment, other manufactured goods, technical know-how, metals, chemicals	U.S.S.R. and Poland	Jointly owned by Interocean S.A. (Belgium), an affiliate of the Banque Lambert and Commercial Metals Company (U.S.A.). Maintains representative office in Moscow
Fendrake Ltd.	P.O. Box 560 20 Fenchurch St London EC3P 3DB U.K. Tel: (01) 623-8000	J.P. Burge	Not available	Acts as principal or agent in countertrade transactions, related financing, consultation and advisory services	Wide range of commodities	Eastern Europe, Far East, Middle East and North Africa	Subsidiary of Kleinwort Benson Group, with links to Centrobank (Austria)
Frank Kirchfeld GmbH KG	Breite Strasse 3 D-4000 Dusseldorf, FRG Tel: 83-981	Not available	Not available	International trade, including counter-trade on own account	Machine tools, plant construction, transport equipment, shipbuilding	Romania, Poland, Czechoslovakia, Hungary	Backed by Gutehoffnungshutte Group (FRG)

NAME	LOCATION	PRINCIPAL OFFICERS	SIZE	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
M. Golodetz (Overseas Ltd.)	Aldwych House 71/91 Aldwych London WC2B 4HN U.K. Tel: (01) 242-8888	L.J.A. Simmons	Not available	Acts as principal or agent in countertrade transactions; also arranges exhibitions, symposia, technical visits	Mainly chemicals, plastics, machine tools, electric motors, steel, foodstuffs	U.S.S.R.	Member of large, international Golodetz trading group; maintains representative office in Moscow
Greficomex	27, rue de Lisbonne F-75008 Paris France Tel: 359-0453	Not available	Not available	Disposal of countertrade goods	Foodstuffs, but no product limitation	Eastern Europe, especially GDR, Poland and Romania	Backed by Credit Lyonnais (France) and Lissauer Group (USA)
Honeywell High-Tech Trading	Honeywell Plaza Minneapolis, Minn. U.S.A. 55408 Tel: (612) 870-5066	Loring B. Lyons	Not available	Full lines of international trading services, including countertrade and offset brokering management	Services to high-tech companies	None specified	Subsidiary of Honeywell Corp.
Cie Interagra	152-156, avenue de Malakoff F-75016 Paris France Tel: 502-1373	P. Doument, President	Est. value of sales (1983) in excess of FFr. 5B	Trade on own account, including countertrade	Agricultural produce and foodstuffs	Bulgaria, Hungary, Romania, U.S.S.R.	Maintains representative offices in Budapest and Bucharest
International Commodities Export Co.	717 Westchester Avenue, White Plains, N.Y. U.S.A. 10604 Tel: (914) 683-8300	John Carpenter, Senior Vice-President Bruce Mumford	Not available	Countertrade on own or client account; also provides specialized financial services	Wide range of commodities, raw materials and finished goods	World-wide network	Division of ACLI International and subsidiary of Donaldson, Lufkin & Jenrette
A. Johnson & Co. GmbH	Taborstrasse 13 A-1020 Vienna Austria Tel: (0222) 266-556	Sven Gustavvson	Sales: Schillings 280M (1983) Employees: 22	Advice, representation and trade on own account	Chemicals, ores and metals, steel, oil and coal, foodstuffs	Deals with all countries where countertrade demands are raised, but special experience in Poland	Part of the Axel Johnson Group (Sweden)
Kaiser International Corp.	300 Lakeside Drive, KB 2643 Oakland, California U.S.A. 94643 Tel: (415) 271-5793	Paul Kim	Not available	Acts as principal or agent for liquidation of countertrade obligations	All products	World-wide coverage through network of own offices and agents in 40 countries	International trading subsidiary of Kaiser Corp. Specializes in providing countertrade services to manufacturers, engineering and construction firms, service companies
Kaukomarkkinat OY	Kutojantie 4 SF-02611 Espoo 61, Finland Tel: 523-711	Not available	Not available	Countertrade products sold mainly in Finland	Chemicals, machinery, textiles, timber, foodstuffs, other consumer goods, shipping services	U.S.S.R. especially, but also Bulgaria, Poland, Romania	Maintains representative office in Moscow
Leopold Lazarus	Gotch House 20-34 St. Bridge St., London EC4A 4DL, U.K. Tel: (01) 583-8060	Not available	Not available	Countertrade operations on own account	Ores and metals	Eastern Europe	Owned by the Lissauer Group (U.S.A.)
Manufacturers Hannover Export Finance Ltd.	7 Princess Street London DC2P 2LR U.K. Tel: (01) 600-5666	R.N. Bracher	Not available	Handles countertrade operations for clients	All commodities considered	Romania	Subsidiary of Manufacturers Hannover Bank, which maintains a branch in Bucharest
Massey-Ferguson Trading (NY) Ltd. S.A.	400 Madison Ave Suite 701 New York, N.Y. U.S.A. 10017 Tel: (212) 319-8770	Neil H. Caplan, President	Not available	Assistance in negotiation and structuring of countertrade transactions, acting as principals, partners or agents	Agricultural and petroleum products, metals, bulk commodities, machinery	World-wide	Trading subsidiary of Massey-Ferguson, but accepts external clients
Morgan Grenfell & Co. Ltd.	23 Great Winchester St. London EC2P 2AX U.K. Tel: (01) 588-4545	Dr. A. Prince I. Meek	Not available	Comprehensive advisory services on countertrade operations, structuring of transactions, associated financing	No limitation	Eastern Europe, South America, ASEAN countries, certain African countries	Countertrade division of major British merchant bank

NAME	LOCATION	PRINCIPAL OFFICERS	SIZE	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
MG Services Inc.	250 Madison Ave New York, N.Y. U.S.A. 10022 Tel: (212) 715-5200	George S. Horton	Not available	Comprehensive countertrade services, including structuring approaches, negotiating contracts, preparing documentation and purchasing products	All products	All countries	Member of the Metallgesellschaft Group. In addition to New York head office, MG services maintains regional headquarters in London and Hong Kong. Also Toronto Office: (416) 665-2328
Mueller International BV	Startbann 5 NL-1185 XP Amstelveen Netherlands Tel: (020) 470-481	G.B.J. Mueller F.C. van de Graff J.P. Moolenbeek H. Patijn	Employees: 80	International commodity trade, including barter, countertrade, buyback, triangular and switch transactions; import and export pre-financing. Acts as principal or agent.	Agricultural goods, metal and steel products, chemicals, fertilizers, crude oil and products, textiles, machinery and equipment, minerals, phosphates, cement	World-wide	Affiliated companies in London, Paris, Baar (Switzerland), Lisbon and New York Countertrade International Inc., 575 Madison Ave., Suite 1006, New York, N.Y. U.S.A. 10022 Tel: (212) 605-0295 Managing Director: G. de la Roche
Noble Trading Co. Ltd.	809 Cameron St., Alexandria, Virginia U.S.A. 22314 Tel: (703) 549-5966	Ms. Ruth Noble Groom, President	Not available	Liquidation of countertrade goods, purchase of goods for trade credits granted to client company, expertise in selection of marketable products.	All products, but especially consumer goods	Eastern Europe	
Noranda Sales Corporation Ltd.	P.O. Box 45 Commerce Court West, Toronto, Ont. Canada M5L 1B6 Tel: (416) 869-7000	Richard Lote	Not available	Assists clients in selling to countries where non-traditional forms of payment are required; will participate as agent or principal in countertrade transactions; also offers marketing consulting services	Forest products, minerals and metals, bulk commodities used industrially (e.g. coal, sulphur, phosphates)	No territorial limitation	Trading subsidiary of Noranda Mines. No eligibility requirements for external clients
Philipp Brothers (Canada) Ltd.	181 University Avenue Suite 1822 Toronto, Ontario M5H 3M7 Tel: (416) 363-9226	Anthony D. Frizelle President	$26 billion (US) annual sales	Will structure and perform barter, countertrade, clearing and other types of "alternative financing"	All products considered	Operates world-wide, with offices in 52 countries	East European transactions can also be arranged through PHIBRO subsidiary; Philipp Brothers (Holland) NV, Prinses Irenestrast 39 NL-1011 Amsterdam Netherlands
The Royal Bank of Canada, International Trade Division	Royal Bank Plaza 13th Floor South Tower Toronto, Ont. Canada M5J 2J5 Tel: (416) 865-4310	Dr. Aldo Nicolai Frank Priyatel	Not available	Advisory and financial services; introductions, co-ordination of arrangements	None	World-wide, but European expertise	Bank offers services to clients on fee basis
Satra Limited	15-21 Praed Street, London W2 1WJ, U.K. Tel: (01) 402-5151	N.N. Bronstein	Not available	Countertrade purchases on own account	Machinery and equipment, especially automotive products, metals, minerals, chemicals, textiles, pharmaceuticals, canned goods	Czechoslovakia, Hungary, U.S.S.R., Yugoslavia	Long-established trading company with East European specialization. British importer of Soviet Lada automobile
Secopa SA	22, rue d'Aguesseau F-75008 Paris France Tel: 723-5577	Not available	Not available	Direct countertrade operations, switch, specialized financing	Chemicals, fertilizers, foodstuffs, metals, agricultural products, textile raw materials	World-wide	Subsidiary of Schnedier et Cie-Le Creusot (France) Major shareholder: Banque Française du Commerce Extérieure (France)

NAME	LOCATION	PRINCIPAL OFFICERS	SIZE	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Seiter-Group AuBenhandels-gesellschaft mbH	Postfach 201609 Fishchertal 4 5600 Wuppertal FRG	Dr. Klaus Tacke	Turnover: $10M plus	Countertrading company founded in 1977 as part of a textile manufacturing firm	No restrictions: have handled numerous products	Poland and Czecho-slovakia	Prefers deals of $1M or less. Good relationships with Polish and Czecho-slovakian Foreign Trade Organizations
Siber Hegner Holding Limited	Bellerivestrasse 17, CH-8034 Zurich, Switzerland Tel: 478-990	Not available	Not available	International trade services, including countertrade	See "general information"	Eastern Europe and Far East	Parent company of group of firms engaged in interna-tional trade; Siber Hener Machinery Ltd. for machinery; Siber Hegner Textiles Ltd. for textiles; Siber Hegner Raw Materials Ltd. for chemicals and agri-cultural products; Handelsverkehr (Zurich) for watches, other consumer goods; Handelsverkehr (Frankfurt) for agricultural products
Sears World Trade: Countertrade Unit	450 Fifth Street NW, Washington D.C. U.S.A. 20003 Tel: (202) 626-1960 Sears Tower Chicago, Ill. U.S.A. 60684 Tel: (312) 875-5801	Phil Rowberg Jack Wainwright David Schaffer	Not available	All aspects of countertrade trans-actions; comprehen-sive package of services	Consumer durables and other consumer products; aerospace industry products, high-technology products	None	Well established, active unit of Sears World Trade Inc.
Societa per l'Incremento dei Rapporti Commerciali con l'Estero (SIRCE)	Via Larga 23 I-20122 Milan Italy Tel: (02) 861-451/2/3	Dr. Alberto Levi	Capital: 400M Lira	Representation and trade on own account	Consumer goods, specialized machin-ery, chemicals, raw materials for the textile, steel and chemical industries	Principally U.S.S.R. but also Bulgaria, Poland, Romania	Permanent representation in Moscow through affiliated Swiss company
Sorice	79-81, avenue Danielle Casanova, F-94200 Ivry-sur-Seine, France Tel: 670-1182	Not available	Not available	Direct countertrade operations for clients	Machinery and equipment	Eastern Europe, especially Bulgaria, GDR, Hungary, Romania and U.S.S.R.	
Transmedia BV	Bur. v. Nispen-straat 33, NL-1251 KG Laren, Netherlands Tel: (020) 79-99-74	Not available	Not available	Countertrade operations	Deals chiefly in engi-neering products, motors, chemicals; occasionally in equipment for the wood-working and paper industry	U.S.S.R., Bulgaria and Romania; occa-sionally Czechoslova-kia and Poland	
The Trade Exchange Group	2490 Bloor St. Suite 400 Toronto, Ontario Canada M6S 1R4 Tel: (416) 763-3541	D. Butcher, President C. Sharp	Not available	International trade and countertrade consultants and advisors	Sales of non-competitive goods on Canadian market	World-wide	
Unico Trading Handelsgessellschaft mbH	Jasomirgottstrasse 3/6 A-1010 Vienna Austria Tel: (0222) 633-241	Dr. H. Stepic	Employees: 6	Agency and counter-trade services. Also engages in forfeiting, loan syndication, leasing and factoring	Timber and other raw materials, consumer goods, foodstuffs, agricultural products, textiles, chemicals	No territorial limitation, but especially U.S.S.R. and Eastern Europe	Trading unit of the European co-operative banking group Unico
VOEST-Alpine Intertrading GmbH	Schmiedegasse 14 A-4040 Linz Austria Tel: (0732) 3-83-31/49	Dr. C. Preschern	Sales: Schillings 31B (1983) Employees: 164	Representation and countertrade	Metallurgical products, raw mate-rials, crude oil, petrochemicals, agricultural products, machinery, textiles	No territorial limitation, but experienced in East-ern Europe	Member of the VOEST-Alpine Group (Austria)
Welt International	1413 K Street NW, Suite 800 Washington, D.C. U.S.A. 20005 Tel: (202) 371-1344/3	Leo G.B. Welt, President M.C Listerud	Employees: 6	Consulting, represen-tation, assistance in arranging trade finance and exhibitions	No limitation	U.S.S.R., Eastern Europe, China	Affiliate publishes East-West trade newsletters: Soviet Business and Trade, China Business and Trade

APPENDIX II
COUNTRY COUNTERTRADE PROFILES

ALBANIA

Albania has experienced a slow rate of economic development due in part to its limited and closely-controlled contacts with foreign businessmen and its constitutional prohibition of official credit financing. It relies on countertrade to generate balanced or surplus hard currency accounts.

On major capital projects, it is usual for counter-purchase to be required during construction, with a buy-back deal becoming effective after start-up of the plant. This compounding of demands may put the aggregate countertrade ratio at over 100%.

With the exception of chrome ore and certain minerals and raw materials, there is a very limited potential for countertrade goods. Agricultural items are generally not acceptable as exchange for industrial investments and better quality goods are generally sold on long-term contracts. New products may become available as Albania attempts to widen its trading patterns from a few partners to a broader representation.

Since all Albanian foreign trade organizations report to the Ministry of Foreign Trade, co-ordination of countertrade arrangements can technically be made cross-sector. However, at the present time, it appears that the only commodity available to a foreign supplier in any quantity is low grade chromium ore.

ALGERIA

Algeria's centralized economy requires that all foreign trade conform to the nation's five-year economic plans. Petroleum and petroleum derivatives account for 95% of Algeria's export earnings and, as the market for petroleum has softened, the government has attempted to shore up its exports through an unofficial linkage to imports.

Although there is no formal countertrade policy, foreign suppliers are being strongly encouraged to accept petroleum at OPEC prices, or other Algerian exports, as partial payment. Some tender documents now include a clause to the effect that countertrade is a major element in the consideration of a bid while some state enterprises actually specify counter-purchase of crude in their tenders. In some cases, prospective suppliers have been advised to contract for the purchase of crude oil in order for their goods to be considered.

Since Algeria believes its trade should balance with its partners over the long term, it has tended to favour suppliers from nations that purchase gas and oil from it. As a result, France and Italy have been particularly successful, probably due to large-scale contracts for natural gas. The National Foreign Trade Centre (CNCE), which is under the aegis of the Ministry of Commerce and is responsible for the promotion of export trade, is particularly prompt in advising would-be suppliers of Algeria's interest in balanced trade.

Not all deals involve petroleum products: a French supplier of auto parts was required to take back Algerian engineering products which were made under licenses granted by European companies. The Ministry of Commerce has a lengthy list of goods available to foreign suppliers for purchase. Algeria produces a fairly wide variety of items, including consumer durables, chemicals and industrial items.

Trade and Foreign Exchange Controls

All imports are handled by state-owned enterprises in accordance with an annual import program. Imports are authorized in five different categories:

(1) authorizations issued to enterprises holding monopoly rights;
(2) authorizations for enterprises who wish to import goods for their own production activities;
(3) authorizations for imports related to specific investment programs;
(4) authorization for imports not involving official foreign exchange or local currency;
(5) authorization for imports to be consumed in public works contracts.

The Ministry of Commerce issues all import and export licenses.

Some exports, including firearms and livestock, are prohibited. State monopolies with a right to export are the only entities which do not require licenses. Some exports may receive prior approval based on a linkage with an approved import while certain agricultural products, such as wheat, barley and oats, are favoured for export. All exports must be transacted through an authorized bank. All export proceeds must be surrendered within 60 days, unless the Ministry of Finance or the Central Bank grants a waiver.

ARGENTINA

In the past, Argentina has followed a free-market economic policy and countertrade transactions have been relatively rare. However, all legislation regarding foreign trade is presently under review and it is expected that recommendations will include the promotion of countertrade as an export tool.

Like a number of other South American nations, Argentina finds itself in a precarious financial situation. In 1983, the rate of inflation was more than 400% and foreign debt amounts to approximately $45 billion (US). The country, under IMF management, has instituted a series of austerity measures.

Although countertrade in private sector transactions is illegal under current foreign exchange regulations, it does exist in some forms in Argentina. Under law No. 21932 (1979), local manufacturers of motor vehicles were limited on the amount of imported parts they could use unless they exported the parts or automobiles, in which case the amount of imported components could be increased to reach the same level as exported ones.

Argentina has also engaged in countertrade with Eastern European countries since 1969 on a government-to-government basis. Most COMECON countries have a large trade deficit with Argentina. The government has entered into agreements with Soviet and Czechoslovakian firms for various services and supplies; Poland and Cuba will be supplying cargo ships. There has also been a deal exchanging grain for Iraqi oil and at least one agreement with China, although it is not clear what goods and services were being traded.

In 1984, Argentina and Mexico entered into a clearing agreement which works on a product-category by product-category basis. Participation by private firms is voluntary and, at the moment, approximately 50 companies in each country are involved.

Although there is some enthusiasm about countertrade in government circles, the tight money policies of the Central Bank will certainly affect any trade-derived foreign currency. A further concern is that the implementation of any countertrade legislation will be very difficult, particularly in assigning a value to the traded products.

Trade and Foreign Exchange Controls

As a result of its economic problems, Argentina attempts to limit imports as much as possible. Import certificates are required for all imports and are obtained from the National Capital Import Directorate of the Secretariat of Commerce. Any application requires a sworn declaration of a need to import.

Imports are divided into three categories. List I covers goods which may not be imported. This includes luxury items or goods which may not be purchased unless permission is granted by the Secretariat of Commerce with the concurrence of the Secretariat of Industry. List II items may be imported if clearance is received from the Secretariat of Industry and the Honorary Advisory Committee on Imports. The Secretariat is made up of private industry representatives and government officials. List III includes capital goods, some chemical commodities, and plastics. Raw materials and feed stock for the pharmaceutical industry along with some medical equipment are also included in List III, and importation of these items requires the approval of the Ministry of Public Health and Social Action.

Most imports to Argentina require minimum financing terms of at least 180 days, calculated from the date of shipment, although imports from LAIA and CACM members require only a minimum term of 90 days. In accordance with this preferential treatment, it is expected that future countertrade transactions with Argentina will involve other Latin American countries — rather than the more developed nations. Capital equipment imports with a value of over $50,000 (US) are financed using a sliding scale method which may require up to five years for final payment.

Export proceeds must be repatriated and surrendered within three days of payment. All proceeds from the sale of traditional exports must be received before shipment. Some non-traditional goods may be shipped on consignment for 360 days. Argentina offers a number of export financing arrangements, along with domestic tax rebate incentives especially for non-traditional exports.

AUSTRALIA

Although Australia has no legislation concerning private-sector countertrade transactions, it has had a very comprehensive policy requiring offsets in both civilian and military government procurement contracts since 1970.

The objectives of the offset program, re-affirmed in 1976 and I979, are to obtain technology and skills, open new markets for Australian goods, promote investment and employment and, in the military sector, enhance the nation's defence capability. This program was stimulated by Australia's increasing defence expenditures and has been particularly notable in its application to aircraft purchases, including the F-111 and F-18A.

Offsets are currently required to a value of 30% of imported portions of contracts where the total contract is $1 million (AUS) and the imported component at least $500,000 (AUS). Bids without offset proposals are not considered. It should be noted that offsets targets are not developed competitively but are often negotiated after contract signing. Several types of activities are eligible as offsets:

a) manufacture in Australia of parts of the equipment being purchased, provided the manufacture involves comparable technology;
b) manufacture in Australia of technologically-comparable, related equipment for sale to other customers of the overseas supplier;
c) collaborative proposals at a technologically-acceptable level in which the prime contractor arranges for Australian industry to participate through concept, design, development, and production stages;
d) purchases by or on behalf of the overseas supplier of Australian products of defence or technological significance;
e) transfer to manufacturing industry of technology over and above that inherent in the contract for the supplies; and
f) research programs which will benefit manufacturing industry by creating new technology, new capabilities and increased capacity.

The government prefers, but does not require, that offsets be directly related to the procurement. If there is no practical way for 30% of the work to be carried out in related offsets, then the use of unrelated counterpurchases may be considered. Where the supplier offsets or counterpurchases more than 30% of the contract value, credits will be awarded on future contracts. As well, successful completion of countertrade requirements is a factor that will be considered in awarding future work.

Offsets policy and administration were originally the responsibility of the Department of Industry and Commerce. In 1982, a new Department of Defence Support was established with responsibility for "defence purchasing, operation of government defence factories and naval dockyards, and development of Australian industry as well as offset policy and administration". This unit was abolished in December 1984. At that time the responsibility for administration of offsets for defence purposes was reintegrated into Defence and the responsibility for the offsets policy and administration of non-defence offsets was transfered to the new Department of Industry, Technology and Commerce.

A recent review of Australian offset requirements by an independent committee produced the Inglis Report of 1984 which supports the continued use of the program, although advocating a minimum contract level of $5 million (AUS) and imported component of $2.5 million (AUS). At this time, the government is in the process of developing a response to the report.

While Australia has been reasonable in its application of its offsets policy, various factors such as the depressed state of the Australian manufacturing sector and the large number of as yet unfulfilled offset obligations may result in the more stringent application of the rules.

Trade and Foreign Exchange Controls

Australian trade laws reflect the nation's free-market stance. Few import licenses are required although there are some restrictions based on reasons of health, quality standards, security or industry assistance. The *Customs Tariff Act* of 1975 provides for anti-dumping duties on imports that cause, have caused, or threaten to cause, material injury to indigenous industries. There are no controls on payments for imports.

Export licenses are only required for specific goods (fuels and petroleum products, endangered animals, etc.). Export proceeds must be repatriated within six months, unless otherwise authorized.

BANGLADESH

Bangladesh has engaged in countertrade through a number of Western trading companies and it has also had extensive experience in trade with East European bloc nations. The government hopes to expand countertrade transactions in an attempt to increase and diversify the nation's exports. At present, jute accounts for 90% of Bangladesh's foreign exchange earnings.

A special relationship exists between the state-owned

Bangladesh Trading Company (BTC) and five Western trading houses. The trading houses have arranged deals worth $50 million (US) annually, which generally involve the purchasing of jute, carpets and leather in exchange for rice, palm oil and some machinery. Western companies intending to sell to Bangladesh should contact the trading houses, which include MG Services, Andre, and Cogis (see Appendix I for details), in order to take advantage of their relationship with BTC.

The government intends to enter into long-term special trading agreements with other Asian nations, including Malaysia, India, Nepal and Pakistan. Jute has been used by BTC to obtain Malaysian palm oil and the company has also exchanged paper for engineering products from India. Most deals, however, are for the importation of rice and other foodstuffs.

As jute and jute products gradually are supplanted by synthetics, Bangladesh will be forced to countertrade to reduce its large inventories. It is expected that the list of goods available for countertrade will expand to include tea, carpets, newsprint, processed foods and some industrial manufactures, such as chemicals and basic machinery. Garments and leather goods may be offered on a subcontract basis, which would still qualify as countertrade. As the government has yet to determine its official countertrade policy, there have been no restrictions on the choice of Bangladesh goods for export.

BRAZIL

Although Cacex, Brazil's trade control office, claims that less than 5% of the nation's external trade is carried out in countertrade transactions, Brazil is still regarded as one of the leading proponents of countertrade outside of Eastern Europe. The country has serious economic problems, including medium and long-term foreign debt amounting to $103 billion (US) coupled to an inflation rate that reached 214% in 1984 and a gross domestic product which continued declining in the 1980-83 period, causing Brazil to experience a slow growth rate in 1984.

Brazil is heavily dependent on oil imports, which make up almost half of all imports. In 1976, the state oil company, Petrobras, set up its trading subsidiary, Interbras, and it is this firm that has been the leader in countertrade activity. Private sector countertrade deals have not been extensive although General Motors do Brazil has recently launched a Latin American barter drive. The company exports cars in kit form from Venezuela, Colombia, Equador and Chile and hopes to increase sales by countertrading the kits for spare parts. Volkswagen do Brazil also exported cars to Iraq and Nigeria in exchange for oil.

Although rumours persist that Brazil will pass legislation requiring compulsory countertrade, the country has no official regulations at the present time. Cacex has never formally sanctioned countertrade, but will apparently give closer consideration to an application for an import license where countertrade is shown to be an element. Imports are severely restricted in Brazil as a result of 1981 government regulations.

Brazil has been heavily involved in government-to-government agreements. In 1980, it signed a co-operation agreement with Iraq to supply nuclear technology for oil, and an arrangement with the Soviet Union to exchange soybeans, soya oil and corn for Russian petroleum. Similar arrangements have been made with Angola, Iran, Mexico, Venezuela and Nigeria.

Interbras has maintained the key position in Brazilian countertrade. The company sold more than 10% of Brazil's total exports in 1983, amounting to $3 billion (US). It exports a very wide range of products, including agricultural commodities, shoes and petrochemicals. Interbras is very interested in countertrade deals involving petroleum.

The IMF, which monitors Brazil's economic recovery, is opposed to any expansion of countertrade activity as it believes that such expansion would be injurious to the Brazilian economy. This belief is based on the loss of hard currency where countertrade goods are substituted, and transaction costs tend to be high. The intent of any countertrade transaction must therefore be trade expansion rather than mere market substitution.

Clearing agreements with Eastern European nations have resulted in debts of some $4 billion (US) in favour of Brazil. Switch arrangements may be made which enable Brazil to import Western goods using clearing dollars. Thirty percent of Brazil's foreign trade is channelled through the clearing agreements with countries such as Mexico, Argentina and Nigeria.

Where clearing dollars are not used and settlement is made in freely convertible currencies, the arrangements must comply with IMF requirements, which do not allow compulsory countertrade. Switch and triangular transactions accounted for $500 million in Brazilian exports in 1984.

Although Brazil has suffered a decrease in exports to clearing countries recently, it cannot afford to lose any markets for its goods. The government is likely to favour imports from those nations willing to accept Brazilian exports in return, or which have a trade deficit with Brazil.

Canadian companies wishing to do business in Brazil could increasingly be faced with offset requirements when bidding. A joint venture between Spar Aerospace and Hughes Aircraft on a $130 million satellite contract required offset, although quantity and composition of the offset was poorly defined. When there is a major import contract, Brazil will increasingly require an offset agreement with the supplying country. This is particularly true for military procurement as, for example, in its helicopter purchases from France.

Trade and Foreign Exchange Controls

As part of its tight-money policy, Brazil requires that all imports be licensed through Cacex and all parties handling foreign trade be registered. Cacex is more inclined to approve high priority imports, such as oil or energy products, health care products and scientific instruments. It is forbidden to import many low-priority items at the present time, including luxury and consumer goods.

Import certificates are valid for between two and six months, depending on the goods. Importers must submit an annual import program to Cacex. Where payments are to be made in clearing dollars, or where the goods are related to establishment of production facilities whose output is to be exported, greater consideration will be given to a request for a certificate.

It is illegal to retain foreign exchange earned from exports in foreign banks or accounts. Payments must be repatriated within three days while imports require deferred credit terms. There could be export controls for certain primary products or raw materials temporarily in short supply in Brazil. A number of export incentives are available to Brazilian exporters.

BULGARIA

Bulgaria is a strong proponent of countertrade. "Industrial co-operation" is a key theme in its economic relations with the West and, since mid-1981, Bulgaria's import enterprises have attempted to finance imports on a buy-back basis. At the very least, major equipment and capital project imports face initial demands of 100% countertrade, although a realistic bargaining position for the exporter would be closer to 40%.

Countertrade goods from Bulgaria are generally uncompetitive and have a poor reputation on the basis of price, marketability and availability. Exporters are particularly advised to avoid any requirement to counterpurchase machined technical goods. While transportation and materials handling equipment are primary product categories given a high priority in the Bulgarian drive to export using countertrade, Western suppliers would put themselves in a more favourable position by contracting to counterpurchase products from the chemical industry, such as solvents, synthetic resins and plastic components, where quality is known and delivery terms usually met.

Cross-sector countertrading may be difficult as linkage between the various foreign trade organizations is poor. The Ministry of Foreign Trade can provide a co-ordinating service on priority transactions.

CHILE

Chile has no regulations concerning countertrade except for a 1975 law which relates to the local content requirements of the Chilean automobile industry. Chile adheres to free-market economic principles and government officials have considered countertrade to be unnecessary and impractical. Although Chile does have foreign debt of approximately $20 billion (US), it has a low inflation rate and a generally stable economy.

Although current foreign exchange shortages have caused the government to examine countertrade proposals on an ad hoc basis, Chile still has had very little experience with countertrade. Copper, which accounts for 46% of the country's exports, is not amenable to use as a countertrade item: copper sells on an entirely commercial basis at prices which are determined on commodities exchanges. Also, Chile doesn't have the sort of draconian exchange controls which are often a reason for countertrade arrangements.

Any firm intending to arrange a countertrade deal must receive the approval of the General Director of International Economic Relations at the Ministry of Foreign Relations. Due to the lack of guidelines, it is difficult to see on what basis approval would be granted or withheld.

Trade and Foreign Exchange Controls

Import declarations must be obtained and processed through local commercial banks and subsequently approved by the Central Bank. Foreign exchange for import payments will be released 120 days after shipment. Authorization by the Central Bank is required for imports which have deferred payment terms exceeding 360 days. All imports are subject to value added taxes and duty, although they may be reduced on the import of capital goods which are used in export operations.

Export-derived foreign exchange must be repatriated within 90 days. The Central Bank may give permission to an exporter to retain up to 5% of export proceeds in a special foreign exchange account, up to an annual limit of $100,000 (US).

CHINA

The present state of countertrade in China is a reflection of the government's economic goals. Commencing in 1978, China embarked on a massive modernization effort which has seen the volume of imports into the country rise signficantly and an inflow of over $8 billion (US) in foreign investment. Unfortunately, it soon became apparent that China's foreign currency reserves would not be adequate to meet the new demand and since 1979, expansion has proceeded at a more modest pace, with some projects being postponed or even cancelled. China's leadership has a dislike of debt and aims to use hard currency reserves for debt payment only for absolutely vital purchases.

Western firms wishing to supply goods to China must be aware of the government's current aims and attitudes. Priority has now been given to projects that do not require much hard currency, that provide a rapid return on investment, and that have a high hard-currency export potential. Chinese economic and political goals are met primarily through the use of joint ventures with foreign companies and through a fairly limited countertrade scheme that emphasizes buy-back arrangements. In essence, China is willing to accept a more controlled rate of growth than previously planned, and wishes to link its hard currency import expenditure to corresponding exports.

Since 1978, there has also been a decentralization of the economic administration in China. Whereas all transactions were once the responsibility of the Ministry of Foreign Economic Relations and Trade (MFERT), and subsequently the province of a number of Chinese foreign trade organizations, a greater amount of autonomy has been given to a large group of new import–export companies. While the system has become more competitive domestically, any prospective countertrader should be forewarned that horizontal linkage between Chinese companies is still chaotic. Most countertrade goods are obtained directly from the Chinese purchaser of western goods; any contract which would require the services or goods of a third party may not be fulfilled.

Buy-back transactions are favoured not only because the amount of foreign currency spent is limited, but also because Western technology may be used to update obsolete Chinese production, train Chinese workers and bring Chinese goods up to a world standard. Once the countertrade obligation to purchase has been fulfilled, the Chinese goods may remain in a strong position in the export market. In some cases, the Chinese government has required a Western supplier to take an equity position in the importing Chinese company. In this way, some countertrade has been disguised as joint ventures.

Since there are no official guidelines for the conduct of countertrade, it may not be apparent to a Western supplier submitting a bid that a countertrade commitment would be necessary. Although Chinese firms do not employ the same negotiating tactic as some Eastern European nations of suddenly requiring countertrade at a late stage in the bargaining, any supplier would be well advised to determine immediately if the purchases are to be made for cash or through some form of compensation. It appears that countertrade is worked purely on a case-by-case basis where there are few or no competitors: a Western company providing a very high priority import may not face any countertrade obligations at all. On the other hand, a purveyor of non-priority goods may not be paid in cash. For example, a West German firm interested in setting up an amusement park in China was advised that payment would be in the form of goods.

A number of compensation agreements have been successful for both parties involved. For example, a French company that exported machinery required for shipbuilding received parts for deck cranes in return. In this situation, the French supplier received goods of world quality, which were produced on their own machinery, and they were able to utilize the goods in-house or dispose of them through an existing customer. In a more complex deal, a Hong Kong company shipped West German polyester filament machinery to a factory being built by a Swiss engineering firm in China; in return it received polyester filament produced on the machinery.

These transactions may be arranged in various ways: the Western company may provide equipment and technical assistance to the Chinese factory, which uses its improved production capacity to pay the supplier, who is responsible for marketing the goods outside of China. Raw materials may be imported, processed by the factory in China and re-exported by the Western supplier, for which the Chinese partner receives a fee. AMF, the American conglomerate, produces sporting goods in China, a large percentage of which are taken back by AMF and sold on the world market. AMF has also arranged the shipment of machinery to produce electrical relays and supervises the production and quality control of the relays, buying back a percentage of the production. It is reported that AMF gave the production machinery to its Chinese partner for a ten-year period, at the end of which time the partner may exercise an option to purchase.

China has a number of bilateral trading agreements and is concerned that any goods exported as part of a countertrade obligation go to balance trade. However, there is no mechanism that ensures that the goods are shipped to a nation which is actually the end-user.

Because of the complexities of the Chinese market and the very recent decentralization which has seen many Chinese state companies leased by communes or individuals, it may be advisable to use the services of a trading house or other business organization based in Hong Kong. A complex deal involving the construction of a motorcycle plant was arranged between a Chinese motorcycle producer and a Hong Kong firm, which was responsible for overseeing construction and start-up of the project. It was this Hong Kong firm that made arrangements to license and build the products of a Japanese company, for which the licensor receives a royalty.

Deals seem never to be concluded in less than six months, with most taking over a year. It is believed that persistance is one of the key requirements for any Western firm wishing to operate in China. 3M, which is the only totally-owned foreign firm with manufacturing facilities in China outside of the Special Economic Zones, spent over two years negotiating its entry. The company went to great lengths to assure the government that it produced a high-quality and diversified product line.

A key item in the negotiation of any contractual arrangement is to structure the proposal in a manner such that the Chinese partner may report that it is receiving product, equipment, or services, free of charge. It is also important to emphasize the profit accruing to the Chinese partner as the importance of profit is now officially recognized in China.

Entry may be available to the Chinese market where exporters of Western goods are willing to enter into buy-back arrangements, particularly in the energy field — oil exploration and production — as well as in transportation, telecommunications and high-tech products, the textile and chemical industries, the capital goods sector, agriculture, and tourism. While the Chinese are moving at a slow pace, the future of countertrade appears to be signficant and is an effective way of meeting the government's economic goals.

Trade and Foreign Exchange Controls

The Ministry of Foreign Economic Relations and Trade (MFERT) is responsible for setting policy for foreign trade activities and licensing imports and exports. The State Administration Exchange Control (SEAC) approves the release of foreign exchange, which is handled by the Bank of China. As foreign trade is conducted on the basis of a foreign trade plan, which is part of the five-year plan, there is not much latitude in arranging imports. All trade with Israel, South Korea, and the Republic of South Africa is prohibited. All foreign exchange earned by Chinese enterprises must be sold to the Bank of China, except where regulations permit retention of some of the earnings.

COLOMBIA

Colombia has used countertrade on a limited basis for a number of years and has dealt with COMECON nations in this fashion. In December 1983, a new Foreign Trade Law was enacted that recognized, among other aims, the desirability of a barter system of trade and the existence of arrangements termed compensation, swap and triangulation. Subsequently, regulations concerning the policies set out in the framework law were enacted by Executive Decree No. 370, issued in February 1984 in the name of the President by the Ministry of Economic Development. Colombian authorities hoped to develop additional markets for their primary products. However, many products were excluded and very few transactions occurred. Therefore, in the spring of 1985, the Colombian government declared that it would phase out countertrade in the near future.

The Colombian Foreign Trade Institute (INCOMEX) is authorized to approve countertrade transactions if certain criteria are met. It must be shown that the contract will assist Colombian exports, balance of payments and economic development, that no other mechanism would be suitable for accomplishing the transaction, and that prices reflect the international market value of both the exported and imported goods. If the goods are imported first, INCOMEX requires a guarantee that the corresponding export shall take place. Contracts must link imports and exports and be signed by all four parties.

Decree No. 370 defines a swap as the exchange of goods without monetary payment. A compensation is defined as purchase and sale of goods.

Wholly Colombian products are exported at a value not necessarily equal to the value of the imported goods in the transaction. The concept of triangulation is simply recognition of the fact that a countertrade transaction involving individuals or entities domiciled in Colombia may involve three or more countries. In any of these types of barter transactions, the exporter must post a guarantee with INCOMEX to ensure the repatriation of the foreign exchange involved, in the event that no corresponding importation ultimately occurs.

It is a requirement that all countertrade agreements must be registered with INCOMEX prior to the granting of any approval, and that no approval will be given to a countertrade transaction without a contract or a protocol setting out the terms of the contract.

At the present time, regulations to implement Decree No. 370 have not been issued, but it is apparent that countertrade will be encouraged in Colombia. The country has seen a deteriorating trade balance as well as a decline in foreign exchange reserves. INCOMEX has established a list of products, mainly of a high-tech, high-value nature, whose importation requires counterpurchases or barter for Colombian goods. The exporting party must demonstrate that the countertrade commodities are above and beyond Colombia's normal export levels.

A difficulty facing the prospective countertrader is in finding suitable Colombian exports in appropriate quantities. The major export product is coffee, which is subject to restrictions under the International Coffee Agreement. Many other agricultural products are not price competitive. Barter deals in coal and nickel are not permitted on convertible currency markets.

Among the countertrade transactions which have taken place, Colombia has traded coffee for streetcars from Romania and the U.S.S.R., and for buses from Spain's

ENESA. In 1984, only 70 or so transactions were approved, totalling some $80 million (US).

Trade and Foreign Exchange Restrictions

Imports are divided into three categories: free imports, prior license, and forbidden imports. Free imports, which require no authorization for entry, virtually do not exist. Forbidden goods include hazardous items, purely luxury goods, or goods that may be obtained locally in sufficient quantities and at a reasonable price. Prior license goods, which make up approximately 93% of all of Colombia's foreign purchases, require authorization by INCOMEX, which may approve the importation in whole or in part, or may postpone or reject it.

INCOMEX examines the application and considers whether the proposed import could be replaced by locally-produced goods; whether the import is a luxury item; whether the import has a high value; and whether it is used, imperfect, a second or discontinued. High priority imports include raw materials, and spares necessary for the proper maintenance of production capacity.

These controls apply to all importers, including the Colombian government, which is itself responsible for one-third of the nation's imports. However, certain goods on both the prior license list and the forbidden list may be imported if countertrade is a requirement of the contract.

Import licenses are valid for up to nine months and may be extended. A foreign exchange license for payments abroad requires a prior deposit and payment for the imports is made through the Central Bank's exchange certificates, which are freely negotiable.

Exports may qualify for certain government incentives, such as tax credits or a release from sales tax, if they are non-traditional goods. However, these credits are lost if the items are sold by countertrade. Some exports, including petroleum and certain foodstuffs, are prohibited. Export transactions must be registered with INCOMEX, along with a guarantee of 5% of the invoice total. Export proceeds must be repatriated within a specified period, depending on the commodity traded. Foreign earnings are surrendered for exchange certificates.

COSTA RICA

In 1983, Costa Rica set out formal regulations for the conduct of countertrade transactions, pursuant to the nation's 1965 Barter Law. Although the regulations specifically refer only to barter, all countertrade activities are governed by them. While the government is concerned about the complexities of countertrade, and administrative problems including the flight of capital through fraudulent invoicing, Costa Rica's inability to service its foreign debt, which is estimated at $4 billion (US), may serve to encourage countertrade.

Countertrade activities are handled by the Central Bank and the Ministry of Economy and Commerce. The Ministry's Directorate of External Finance is responsible for the initial evaluation of any proposed countertrade transaction. Where the deal involves CACM nations or Panama, the agency responsible is the Central American Common Market (CACM) Nations' Directorate of Economic Integration. Following this initial review, any application is further examined by a Technical Committee. The Technical Committee determines whether the transaction would increase overall Costa Rican exports and improve the balance of trade; whether the imports are essential or have an assured market; whether prices adequately reflect world market conditions; and whether the item to be imported could be replaced by a domestically-produced item. It is preferable that goods which may be sold for hard currency do not become the objects of countertrade, and that such trade be conducted with a country with which Costa Rica currently runs a trade deficit. Where the Technical Committee approves the transaction, a 90-day barter license is granted by the Ministry.

The license is a specific document that contains the names of the exporter and importer and foreign consignee; a description of the merchandise to be traded; country of destination; FOB or CIF value in dollars; the name of the foreign bank involved in the barter operation; supportive exit or entry documentation for the merchandise; and lastly, the expiration date of the barter license.

Where a price adjustment greater than 5% of the value of the goods occurs within the 90-day period in favour of the foreign supplier, the importer is required to make up the difference in currency. Should the prices change to the advantage of the Costa Rican importer, any excess of foreign exchange over the 5% margin is required to be deposited in the Central Bank.

Since 1983 Costa Rica has been fairly active in countertrade. It has traded coffee for Israeli agrochemicals and for Romanian aluminum ingots, and onions for Panamanian rice. However, its largest countertrade partner is Nicaragua, another nation facing a foreign exchange shortage. Costa Rica exports a fairly wide range of manufactured goods to Nicaragua in exchange for polyvinyl chloride and caustic soda. There has also been activity with El Salvador in an attempt to facilitate compensation for the large Salvadoran debt owed to Costa Rica.

Because it is a small nation, Costa Rica does not have a large number of goods or services available for countertrade, with the exception of traditional Central American agricultural products. The expressed interest in countertrade possibilities has yet to be converted into substantial economic activity. It appears that, in the foreseeable future, the predominant countertrade transactions will be with other members of the CACM group.

Trade and Foreign Exchange Controls

In order to be eligible for foreign exchange, any imports with a value of over $500 must be registered with the Central Bank, with the exception of goods originating in the CACM (of which Costa Rica is a member) or in Panama. Certain products originating in CACM countries may entitle the importer to reduction or elimination of duty. All imports from South Africa are prohibited.

Most imports, depending on their nature, are financed at a free market floating rate or at an interbank exchange rate.

Exports require licenses from the Central Bank, and certain exports require additional licenses from specific government ministries. In converting foreign exchange derived from exports, 1% is convertible at the official rate, while the remainder may be converted at the Bank rate. Export proceeds must be repatriated within 30-90 days of shipment, depending upon the type of goods exported.

CZECHOSLOVAKIA

Unlike the policy of other COMECON nations, it appears that countertrade transactions are given a fairly low priority in Czechoslovakia. The country has not been a major practitioner of countertrade; its goods are generally easy to market and it has an industrial tradition that has resulted in a high level of development, established markets and low foreign debt.

Countertrade transactions that have occurred tend to be more in the nature of financing mechanisms. Czechoslovakia prefers to offer exports of plant equipment and machined technical goods, but also offers, from time to time, semi-finished and fully-finished goods from the metallurgical industry, along with some chemical products.

Although there is an official view that countertrade is a regressive trade practice, Czechoslovakia is faced with aging capital plants and tight credit, so it is possible that countertrade may be more actively pushed in the future in order to maintain production and guard against increased debt. The economic system is very centralized and it has been found that the contractual fulfillment of bilateral trade agreements proceeds at a fairly rapid pace and is generally unimpeded. In order to avoid a special financing agreement for the import, a foreign supplier should include the possibilities of countertrade in its offer.

It is important to show Czechoslovakian authorities that any new exports are incremental. The government would prefer not to allow the transfer of countertrade obligations to a third party in order to protect its already established markets.

While countertrade deals can be struck with many Czechoslovakian foreign trade organizations, *Transakta* has been established to operate primarily in the area of consumer goods. The transactions have tended to be small. Transakta has also been involved in switch arrangements as it acts as the clearing house for bilateral agreements between Czechoslovakia and certain less-developed countries.

DOMINICAN REPUBLIC

In May 1984, the Dominican Republic officially endorsed the use of countertrade through promulgation of its Presidential Decree No.20005, which set out regulations for the conduct of countertrade activities. It is hoped that the Dominican Republic's serious foreign exchange shortage will be alleviated through the use of countertrade. The nation's foreign debt presently amounts to some $2.4 billion (US).

Sole responsibility for export administration lies with the Dominican Center for the Promotion of Exports (CEDOPEX). The directors of CEDOPEX review and approve any application for countertrade transactions, and approval results in the issuance of a special barter permit. In reaching its decision, CEDOPEX consults with the Dominican Central Bank and other ministries of the government which may have an interest in the transaction.

CEDOPEX's directors set out the criteria for approval on a case-by-case basis and determine items to be imported and exported. Besides approving agreements, CEDOPEX also monitors the fulfillment of counterpurchase contracts, utilizing assistance from the Ministry of Finance and the Central Bank. Where there is a time lag between imports and exports, it is required that insurance bonds be placed with the Central Bank in order to encourage compliance with the terms of the agreement.

CEDOPEX has the unique power to allow goods whose import is normally forbidden to be brought into the country for a maximum period of 15 days, after which the goods must be re-exported by the transfer of title to a third party.

Dominican experience with countertrade has been in fairly small transactions: Dominican bauxite has been exchanged for buses and cement, and sugar has been bartered for American trucks and equipment.

Trade And Foreign Exchange Controls

The Dominican Republic restricts imports by the use of variable duties, ranging from 40 – 900%, depending on the nature of the item imported. The Central Bank also controls the use of foreign exchange. The Bank may sell foreign exchange at the official exchange rate for certain commodities such as fuel, while for other goods it may set the quota on foreign exchange allowable. For some items it will be necessary to pay a higher exchange rate at commercial banks instead of going through the Central Bank. There are also a number of items, deemed non-essential, whose import is prohibited.

CEDOPEX regulates all exports from the Dominican Republic. In general, all items produced locally could be exported except some basic food products like milk, meat, etc., which are normally insufficient and highly subsidized. Due to its significant economic importance, sugar (which accounts for 35% of the Dominican Republic's exports) may be exported only with the prior authorization of a committee made up of the Ministry of Finance, the Central Bank and the National Sugar Institute.

In an effort to increase non-traditional exports, the government allows tax credits and some exemptions from foreign exchange regulations. The normal requirement is that export proceeds be surrendered within two days of receipt through a commercial bank. This regulation does not apply to companies operating in industrial free zones in the Dominican Republic.

ECUADOR

Ecuador was one of the first nations to formally set out countertrade rules. However, the nation's experience since 1978 has not been entirely satisfactory: Ecuador's basic commodities were being exchanged for imported goods with the result that no new foreign earnings were being added to the nation's economy. In 1984, Ecuador revised its outstanding countertrade legislation to reflect a new policy of promoting non-traditional exports to finance imports.

Although countertrade only amounts to a small percentage of Ecuador's commerce, the example may be significant for other less-developed countries working from a commodity base. The Ministry of Industry, Commerce and Integration (MICEI) is responsible for approving all countertrade transactions. Items that have been hard currency earners have been effectively removed from the list of goods available for countertrade. These include petroleum and its by-products, bananas, shrimp, coffee beans and cocoa beans. Bananas can be used either to open new markets or for transactions with countries having bilateral trade agreements with Ecuador. Although the policy seems clear, MICEI has the discretion to vary these regulations.

Ecuadorian countertrade is further complicated by the requirement that the government be advised of the end-user of the countertrade goods. Resale of such goods to countries with which Ecuador has bilateral clearing accords is prohibited. In deals involving third countries, Ecuador does not allow imports to exceed 50% of the value of exports. Further, the CIF value of non-capital goods imported in countertrade transactions may not exceed 100% of the FOB value of Ecuadorian exports. Where capital goods are being imported, the ratio is 70%. This is almost always decided on a case-by-case basis.

The difficulty of complying with Ecuador's policy requirements in countertrade is further reflected in the procedural requirements of any such transactions. The exporter, the importer, or both must file a draft contract with MICEI setting out the product involved on both sides of the transaction, the destination and the place of origin of the goods, and the value involved. MICEI reviews the proposal, based on whether the deal will open new markets for Ecuadorian products, or substantially increase export levels. MICEI then makes a recommendation to the Under-Secretary of Commerce who is responsible for the final decision and for informing the parties involved and the Central Bank of Ecuador.

With the approval at hand, the exporter and importer apply to the Central Bank with further details of the transaction. Once the export shipment is made, the importer has 180 days to present the import permit to MICEI for verification. Once verification has taken place, the Under-Secretary of Commerce notifies the Central Bank, forwarding the import permits. At the same time, he advises the importer that final approval may be obtained from the Central Bank. The import license includes a clause indicating that the Central Bank will not forward foreign exchange to the importer to pay for the imports. However, the export license relieves the Ecuadorian exporter from having to turn over foreign exchange received from the sale of his goods to the Central Bank and allows him to pay for the imports directly. The exporter must also present to the Central Bank a guarantee which will cover any delivery failure by foreign suppliers.

Ecuador maintains bilateral clearing agreements with a number of East bloc nations and has concluded countertrade transactions with the U.S.S.R., Czechoslovakia and Romania, offering bananas in exchange for automobiles and other finished goods. Other agreements exist with Cuba, the Dominican Republic, and other members of LAIA. There has also been activity with other nations, such as New Zealand, on an as-needed basis.

Private-sector countertrade transactions have included the exchange of plywood for computers, oil for a U.S. jetliner, and pesticide for Brazilian trucks. Most countertrade arrangements in Ecuador are private-sector ones, although the government may assist in negotiations. MICEI emphasizes that countertrade arrangements are strictly on a voluntary basis and that the government will not offer any incentives or otherwise actively promote or encourage countertrade.

Ecuador is facing many of the problems encountered by other Latin American economies. Its foreign debt stands at approximately $7.6 billion (US), with $2.2 billion of that being public debt. Also, Ecuador's exports to its traditional markets have, in a number of cases, been affected by import restrictions in those countries. In April 1985, the debt was refinanced with the Club de Paris. Ecuador then became the first country in the world to benefit from a multi-year refinancing. Although the economy is expected to recover slowly, indications are that the worst days are behind.

Trade and Foreign Exchange Controls

Import licenses are required for all goods valued at $500 (US) or above. Imports are divided into two groups: List One consists of permitted imports and includes essential goods (Category A) and semi-essential goods (Category B), while List Two consists of luxury and non-essential goods. Items on List Two no longer qualify to receive a portion of foreign exchange for their import. Some goods may be imported only from specified nations. The importer is required to pre-pay 80% of all import duties and must obtain insurance in Ecuador. In addition, the importer also faces a range of import taxes and surcharges. Import licenses issued by the Central Bank generally run for a period of 180 days but may be valid for up to two years, depending on the import.

All exports require licenses and foreign exchange proceeds must be surrendered after shipment of the goods. The time period for the surrender of foreign exchange varies with the nature of the product and must be determined on application. The government has set minimum prices for certain traditional exports including bananas, coffee, cocoa, and petroleum. Tax credits may be available to exporters.

GERMAN DEMOCRATIC REPUBLIC

The German Democratic Republic (GDR) has the highest standard of living in the Eastern bloc. It is notable for its high degree of industrialization and output of high quality goods. In the past, the government of the GDR has welcomed countertrade proposals, particularly with regard to capital projects. At present, the nation carries a relatively high foreign currency debt burden and has suffered from the decreasing availability of Western financing credits, as do most East European nations.

Western exporters can expect that, in order to receive contracts on capital projects or other large investments, it may be necessary to arrange countertrade up to a level of 140%. However, on small or medium-sized contracts, countertrade is handled on an individual basis by the GDR import enterprise. Most of the import enterprises have specialized departments which deal exclusively with countertrade agreements. Due to the wide availability of suitable products for countertrade, GDR countertrade negotiations are regarded as being amongst the most straightforward in Eastern Europe. Technical goods are of a high quality and easily marketable by regional standards, although they are sometimes not competitive in price. Due to a well organized administration, cross-sector transactions may be accomplished at minimal cost and most contracts have been filled without complications.

The state agency *Transinter* and the Ministry of Foreign Trade are important organizations which conduct the negotiations and supervise the fulfillment of countertrade contracts. It is advisable that all reciprocal trade agreements stipulate conditions precisely.

HONDURAS

Honduras has used forms of countertrade (primarily barter) for a number of years. Although the country does not have a set of regulations on countertrade, transactions must be evaluated and approved by the Ministry of Economy in conjunction with the Ministry of Finance and the Central Bank.

Honduran policy is to allow the countertrade of both primary and non-traditional exports. Transactions have covered a wide range of products and nations, including Switzerland, Romania, Israel (with which Honduras may be exchanging coffee for telecommunications equipment), and Czechoslovakia (lumber for pharmaceuticals). Honduras is unusual in that it does not offer a list of exports to prospective countertraders but rather a list of imports that it requires. It is then up to the foreign supplier to locate Honduran goods suitable for the export end of the transaction.

Trade and Foreign Exchange Controls

Import permits are required for all items and approval is granted through the External Financing Department of the Central Bank. The Central Bank offers credit for essential goods but non-essential imports must be paid in cash.

The Department is also responsible for issuing export licenses, which are mandatory for all exports exceeding $1 000 (US). Foreign exchange may be either repatriated to the Central Bank or commercial banks within 90 days after negotiation of export documents, or may be held in dollar deposits with commercial banks. Any withdrawals from the dollar accounts trigger government procedures on the use of foreign exchange.

Most traditional exports are supervised by agencies: coffee by the Honduran Coffee Institute (IHCAFE); bananas by the Honduran Banana Corporation (COHBANA); lumber by the Honduran Forest Development Corporation (COHDEFOR); and agricultural staples such as corn, rice, beans, and potatoes by the Honduran Institute of Agricultural Marketing (IHMA).

HUNGARY

Hungary is unique among Eastern bloc nations in that it has made official pronouncements opposing certain forms of countertrade. In a presentation to GATT in 1979, the Hungarian government stated that the linkage of exports and imports should be eliminated because it promotes enterprises unable to sell goods on their own, or promotes uneconomical, obsolete or inferior products. In such cases, countertrade would only work to conserve outdated production. Although Hungary's central bank, the Hungarian National Bank, has never endorsed the use of countertrade, the Hungarian Foreign Trade Bank, which occupies a semi-independent role, maintains a special countertrade committee. However, this is more a reflection of the bank's autonomous position in the increasingly decentralized Hungarian foreign trade structure than an inconsistent countertrade policy practised by the government.

Hungarian enterprises active in foreign trade enjoy a greater independence from central government authority in their activities and goals than do similar organizations in other Eastern bloc states. Increasing importance is being given by the regime to profitability as the main criterion of performance in assessing enterprise effectiveness and usefulness. As a result, many of the state enterprises are self-managing. They have so much individuality that counterpurchases may be workable only if the importing enterprise can supply the counterpurchase goods themselves. Administrative systems are set up to promote buying as well as selling by the Western supplier and a number of companies, notably International Harvester, have had considerable success with countertrade. In International Harvester's case, what originally began as a counterpurchase of truck axles has developed into diesel truck co-production.

Although counterpurchase may be difficult to co-ordinate between various state organizations, Hungary offers an interesting range of goods and services, including goods from other Eastern bloc nations. Of particular interest are the wide range of services available to Western suppliers in countertrade. The use of these services may be arranged either through the Hungarian Foreign Trade Bank, Trade Promotions Division, or the importing foreign trade organization's Special Operations Department.

Hungary has ample unused transportation capacity as a result of a previous high level of investment in the industry and the current trade depression. Transport services do not have to relate specifically to Hungarian trade to be acceptable as a countertrade fulfillment. Another service highly regarded by Westerners is the use of Hungarian printing of books, magazines, catalogues and other materials. Most Western suppliers would be eligible to use these services with the exception of the production of art books, which are usually only acceptable in countertrade with Western printing houses or printing equipment suppliers. Hungary offers a wide range of film production services which are also acceptable in countertrade.

INDIA

Although many of its manufacturers and trading firms have engaged in linked trade on an extensive scale, India has yet to formulate a comprehensive countertrade policy. It is known that the Indonesian example is being followed with interest by Indian government officials. India does maintain bilateral trade agreements with a number of COMECON nations and has carried out numerous countertrade transactions with them.

In the early 1960's, India and the Soviet Union established buy-back arrangements through which the Soviets built steel mills in India in exchange for a portion of their output. Buy-back has since been arranged with other nations. Fishing vessels, chemical plants and other capital equipment are supplied in exchange for a share of output. A recent policy encourages buy-backs. For example, an Indian company importing capital equipment is required to export 75-90% of its production, depending on the industry, for five years after equipment acquisition in order to avoid paying high import duties. As a result, the Indian company obliges the equipment suppliers to take back a large proportion of the output.

Another form of countertrade which experienced only moderate success was the "Special Trading Arrangement" (STA) by which various categories of Indian goods were placed in international markets through large multinational trading houses. The State Trading Corporation (STC) signed several such agreements with large European houses, but permanent trading relationships failed to materialize as the STC was not prepared to grant exclusive rights to particular markets, and it was also difficult to prove additionality — the introduction of new products to the export mix or of new markets for existing exports — in STA exports. The government has encouraged STC to expand its countertrade activities.

Countertrade deals are also arranged through Export Promotion Councils (EPCs), which are independent bodies serving a wide range of industries and which earn a small commission for initiating and organizing the deal. Examples of EPC deals have included the purchase of rough gemstones from Brazil and Tanzania in exchange for polished ones, cotton exchanged for Zambian copper, and Indonesian chemicals and Iranian crude oil obtained for construction materials, railway equipment and other commodities.

An agreement has been signed with Iraq for the payment of Indian contractors working on projects in Iraq, which will supply crude oil and sulphur valued at $95 million. Another countertrade deal saw India provide technical assistance and fertilizer to Uganda in return for agricultural commodities.

India has a large trade surplus with the Soviet Union and Western suppliers have utilized the bilateral clearing agreement between the nations to sell to the U.S.S.R. via India. India purchases the Western goods and exchanges them for Soviet arms and raw materials, along with some manufacturered goods. Rank-Xerox (U.K.) established a joint venture company in Bombay for the delivery of copiers to the U.S.S.R., receiving components in exchange. The advantage for the supplier is that it receives payment in hard currency without any countertrade requirements from either India or the Soviet Union, although it is crucial that there is some value-adding in India.

The Ministries of Industry, Commerce and Finance must be advised of all private sector countertrade transactions and may approve or process the transaction according to their own policy.

The Indian government exerts stringent control over foreign firms in India and all proposals for foreign investment in the country must be reviewed by the Foreign Investment Board. The Reserve Bank approves any commercial, industrial and trading activity of foreign firms operating in India.

Trade and Foreign Exchange Controls

India has fairly complex import regulations: there are three types of import licenses and four categories of imports. The importation of some capital goods is prohibited and in some cases only a conditional license will be issued. Registered manufacturers, merchants and traders are allowed to use Import Replenishment Scheme (REP) licenses, which are transferable and may be used for credit against exports. Foreign exchange is supplied by authorized banks to holders of valid import licenses. The import and export of numerous commodities such as foodgrains, natural rubber and raw cotton are monopolies of state-owned enterprises.

Exports are restricted by state monopoly, quotas or license requirements. Proceeds must be repatriated within six months of shipment unless otherwise authorized by the Reserve Bank. Some incentives are available to exporters and may be open to Western companies involved in joint ventures in India.

INDONESIA

The Indonesian government introduced a counterpurchase policy to increase and diversify the country's non-oil exports in January 1982. The policy is applicable to all government-funded projects valued in excess of 500 million rupiah — approximately $450 000 (US) — and obliges foreign suppliers to undertake exports from Indonesia equal to the FOB value of their contracts, within the time span of these contracts. Exempt from this policy are private-sector transactions, projects financed by the multilateral development banks or through bilateral development assistance, and professional services.

The policy has been considerably refined since its introduction. It calls for incremental exports, over and above Indonesia's traditional trade, and extends to all products and exports except crude oil and its derivatives. A company that is subjected to a counterpurchase obligation can transfer that obligation to a third party. In the same vein, exports that go to third countries are eligible, provided that the "additionality" criterion is met. Failure to comply with counterpurchase provisions by a foreign party can result in a penalty equal to 50% of the value of any unfulfilled export obligation.

Although a number of countries initially objected to the imposition of this new regulation, they have come to accept it over time. Interestingly, the actual cost of counterpurchase to the foreign supplier has been reduced significantly since the policy was introduced.

Indonesia remains committed to its counterpurchase policy. It is not an easy program to administer and the government has shown some flexibility in extending the life of counterpurchase obligations in cases where Indonesia is unable to offer goods of suitable quantity, quality or price. Since 1982, a total value of $1.3 billion (US) of counterpurchase obligations were entered into, of which $635 million has actually been realized. Twenty-two countries have been involved, led by the Federal Republic of Germany ($369 million) and Japan ($283 million). Canadian companies have assumed $92.7 million (US) in such obligations.

Indonesia does not actively assist foreign contractors in finding suitable goods to qualify for counterpurchase. However, international commodity trading houses have been used by Canadian companies to handle their obligations. Both the Canadian Embassy in Jakarta and the Department of External Affairs can assist in bringing Canadian exporters into contact with such agencies.

Where the counterpurchase policy is applicable (e.g., government projects where EDC financing has been extended), bids that do not include an agreement to enter into countertrade will not be considered for evaluation. A letter of undertaking (LOU) must, where applicable, accompany all bids. This commits the potential supplier to comply with the counterpurchase obligation. The actual bid is evaluated first by the executing agency for technical and price compliance, before it is forwarded to the state secretariat (Sekneg) where the final decision on contract award will be made according to other criteria, including adherence to such policies as level of domestic procurement and attractiveness of financing package. The Department of Trade (DOT), which oversees countertrade policy, must approve the LOU. The terms of the LOU are not negotiable, but DOT will accept the transfer of a counterpurchase obligation to a third party if the appropriate assignment agreement is submitted, reviewed and then authorized by DOT.

To show compliance with the countertrade requirements, the supplier (or third party) must submit an Indonesian export certificate (PEB) to DOT. This PEB is issued by banks after a letter of credit has been opened for the purchase of Indonesian goods. After review, DOT will notify the supplier that the export under question satisfies the policy and the outstanding counterpurchase obligation is reduced accordingly. All documentation is closely scrutinized by DOT.

Trade and Foreign Exchange Restrictions

Only Indonesian nationals qualify for registration with the Ministry of Trade and Co-operatives as importers, although foreign investors are permitted to import such items as are necessary for their own projects. As part of its policy to reduce imports, the government has banned the importation of non-essential goods and does not allow second-hand or used goods into the country. A number of commodities are imported exclusively by state enterprises, while others are restricted to approved importers.

Forbidden exports include gold, silver, cattle hides and specific categories of rubber, timber (such as logs) and agricultural produce. Other exports may be subject to quotas, may require authorization from the Ministry of Trade and Co-operatives, or may be unregulated. Authorized exporters are registered with the Ministry.

There is no requirement to surrender foreign exchange proceeds from the sale of exports. Exporters who sell specified products made with imported materials or parts may qualify for a rebate of customs duties and other taxes. In 1981, export taxes were lifted from a number of non-oil commodities including pepper, tea, tobacco and some spices.

Transactions with Angola, South Africa, Israel and China are prohibited, although discussions are on-going concerning a more liberalized trading policy with China.

Indonesia is undergoing a major overhaul of its tax system, including the introduction of VAT, with the goal of simpliflng the system and reducing the country's dependence on oil. Oil presently accounts for three-quarters of the nation's export earnings and two-thirds of the government's revenues.

IRAN

Iran's economy is firmly linked to its oil exports and its practice has been to tie imports to oil purchases, even insisting on barter in some situations. The Iran-Iraq war has caused financial havoc and the reliability of oil deliveries is suspect. However, Iran continues to see oil as its bargaining unit in countertrade deals.

There is a need for imports in almost every sector of the economy. Iran imports substantial quantities of foodstuffs and pharmaceuticals, along with capital plant, machinery parts and raw materials. It requires agricultural equipment and fertilizers, construction and electrical power equipment. The war necessitates the purchase of military equipment thought to be valued at around $5 billion (US) per year. Consumer goods have a low priority and some basic items, including glassware and cutlery, are banned for import as luxuries. Unfortunately, because the nation has so many high priorities, officials find themselves embroiled in a bureaucratic war with each other, all claiming a pressing need for shares in the limited foreign exchange allowances.

In 1981 and 1982, oil barter deals often collapsed because the state-owned importing enterprise promised payment in oil that the National Iranian Oil Company did not have to sell. Some deals have since gone ahead: Brazil sold $25 million worth of lathes in exchange for crude and lamb from New Zealand. Italian construction materials and Turkish machinery have been the subjects of successful oil barter.

Iran has now reduced its dependence on straight barter transactions, preferring to go the route of government-to-government bilateral trade agreements. A number of agreements have been signed with East European and less-developed countries and, as a result, Iran's trade has increased to some extent in these areas.

Industrialized nations who supply advanced goods do not do business on a clearing basis, so Iran has resorted to threats and penalties to force its trading partners to take oil and other products as payment. Pressure to balance trade has been effectively applied to Japan, with the result that Iran now has a trade surplus with that country and Japanese trading companies refuse to contract for more Iranian crude unless Iranian orders for Japanese goods increase.

Iran offers little except oil on a countertrade basis: dried fruit, carpets and some low-quality manufactured goods have been offered, but they are not competitive on the world market in price or quality.

Besides the performance guarantees usually required from a supplier, Iran has also decreed that most exports valued in excess of R500,000 must be inspected prior to shipment, at the supplier's expense. The actual negotiations for a contract may be incredibly complex, involving numerous ministries or state organizations and the foreign exchange committee of the Central Bank. Tenders may be only a means of determining world prices and a successful bidder has no assurance of receiving a contract.

IRAQ

Iraq's countertrade policies have shifted in response to changes in the world oil market. Initially, Iraq was enthusiastic about using countertrade to market oil and obtain foreign goods during the development phase of the oil industry. It reversed policies after the price of oil rose in 1973 and began to follow the OPEC line, which was opposed to barter in petroleum. The subsequent levelling of oil prices, combined with the effects of the Iran-Iraq war and its attendant disruption of oil production and exports, has caused the government once again to reconsider its position. Although Iraq has a fairly broad range of products suitable for countertrade, oil, the export of which accounts for 98% of all foreign earnings, has been dominant.

Iraq carries out countertrade in a number of different ways. Inter-government agreements have seen Iraqi crude oil exchanged for armaments and industrial goods have included deals made in 1983 for French military aircraft, Italian warships and armoured cars from Brazil. These agreements may also be used to cover already existing Iraqi debts.

Under a second form of countertrade contract, Iraq offers crude oil or sulphur to foreign contractors to cover outstanding receivables. The Indian Oil Corporation agreed, in 1983, to accept crude oil on behalf of 30 unpaid Indian contractors.

The rarest type of agreement is the counterpurchase which sees foreign consumer or industrial goods paid for by Iraqi industrial goods. State-owned enterprises have offered car and truck tires, inner tubes, rugs and carpets, plastic pipes, car batteries and asbestos sheeting to prospective countertraders. However, Iraqi officials are not familiar with sophisticated countertrade financing techniques, so proposals should be presented on a straightforward basis.

Trade and Foreign Exchange Controls

Almost all imports are arranged on behalf of the public sector or by state-owned enterprises in Iraq. The balance are subject to authorization and the granting of an import license, which is determined in accordance with the annual import plan and foreign exchange budget. Restrictions are placed on some imports to protect domestic industry. Where a license is granted, foreign exchange is automatically allocated for the import. Besides the usual duties, taxes and other fees, a special tax is assessed to finance the Export Subsidy Fund. The Board for the Regulation of Trade is responsible for issuing all licenses.

Exports may be prohibited where the Board feels it is in the national interest to do so. While some exports may be freely licensed, a monopoly on some items has been granted to the state-owned General Organization for Exports. Export proceeds must be surrendered through the Rafidain Bank within six months of shipment.

All trade with Israel and South Africa is prohibited.

ISRAEL

Since 1967, Israel has had a policy that requires foreign suppliers selling to Israeli government agencies and state-owned enterprises to offset their sales through local content or by countertrade. An administrative rather than legislative requirement, 25% of the value of an order is expected to be returned in countertrade. In 1983, the government established the Central Authority for Reciprocal Purchases to monitor countertrade related to government contracts. At that time, military equipment and spare parts, previously exempt from countertrade rules, were included. The Israeli Ministry of Defence is the nation's single largest purchaser, spending over $1.6 billion (US) per year.

The Co-ordinating Committee for Foreign Procurements approves all government procurements valued at more than $100 000 (US) and decides on the general conditions of the purchase, whether local supplies should be included and whether an offset or counterpurchase should be part of the contract. Israel has traditionally preferred local content requirements because it promotes the growth of domestic industries. The ratio of offset arrangements to counterpurchases is two-to-one. The foreign supplier may invest in local industries, make purchases from Israeli subcontractors or become involved in joint marketing programs abroad. The obligation is on a "best efforts" basis, usually running at between 20% and 40% of the value of the imports. Suppliers who cannot obtain competitive offers from Israeli companies are exempt as long as they make a serious effort at finding suitable partners.

Israel is also interested in promoting countertrade with less-developed countries that may lack the hard currency to buy capital goods, on the basis that those countries supply Israel with products of strategic value that other countries may not be willing to supply for political reasons. A number of trading houses have found a lucrative business in acting as intermediaries between Israel and a reluctant trading partner.

Trade and Foreign Exchange Controls

Israel has liberal import and export policies. Imports are generally free of restrictions although there is a state monopoly on the import of wheat, fodder, kosher slaughtered and frozen beef, soybeans, edible oils and fats, hides, skins and leather, sugar and coffee. A Restricted List does exist for items subject to approval, including some textiles, dairy products, explosives and firearms. Foreign exchange is granted automatically by Israel's banks for authorized imports. Specified imports require a one-year deposit of 15% of the value of the goods.

Export licenses are required for a few goods to maintain quality control; most exports have no restrictions. Proceeds must be in foreign currency only and must be surrendered or held in special accounts. Special export accounts in Israel or foreign bank deposits of up to 10% of an exporter's previous turnover may be required.

JAMAICA

Countertrade has been recognized in Jamaica as an acceptable means of increasing exports, assisting in improving the balance of payments situation, conserving foreign currency, and helping to cushion the problem of declining competitiveness in the bauxite and alumina industry. Although there is no legislation covering the practice, countertrade has been limited almost exclusively to the public sector.

Two state-owned enterprises are involved in the transactions. The Bauxite and Aluminum Trading Company (BATCO) is involved with Jamaica's largest export earner and the Jamaica Commodity Trading Co. Ltd. (JCTC) is the importing agency for a wide range of products, including foods, pharmaceuticals and building materials. JCTC has been named the lead agency in conducting countertrade activity and the company has a seat on the countertrade committee chaired by the head of BATCO.

Jamaican policy favouring countertrade is based on four principles: 1) countertrade exports must be over and above traditional exports; 2) the countertrade must earn foreign exchange or be used to obtain goods which could normally only be obtained with foreign exchange; 3) it must preserve normal trading relationships, for example it may be necessary to resort to countertrade where the country is unable to fulfill its obligations; 4) the price distortions inherent in countertrade must be kept to a minimum.

A large number of transactions involving bauxite have taken place since 1982. The U.S. has obtained bauxite for its strategic stockpile in exchange for $13 million worth of surplus dairy products. Under a five-year agreement with Yugoslavia, Jamaican bauxite will be exchanged for $75 million (US) worth of manufactured goods, including construction materials for low-income housing. A ten-year contract will see a total of 7 million tons of bauxite going to the Soviet Union in exchange for Soviet products; to date, the U.S.S.R. has shipped mainly automobiles. In a single transaction completed in early 1983, Chrysler sold automobiles to Jamaica in exchange for 50 000 tons of bauxite. General Motors, which has an open-ended agreement since 1982, has so far taken only one shipment of alumina, valued at $6 million (US) which it undertook to sell on a "best efforts" basis in exchange for automobiles. Cars are still being imported and further alumina shipments may take place.

There is no legislation prohibiting countertrade in the private sector and commodities other than bauxite may be offered. While most of the countertrade deals have been fairly simple barter arrangements, others have successfully utilized a large number of participants.

Jamaica is also hoping to diversify its agricultural exports away from traditional crops and is undertaking a drive to increase its ability to feed itself through domestic production.

Trade and Foreign Exchange Controls

The Jamaican government has implemented austerity measures that have substantially reduced imports into the country. Import licenses are required in some cases and are issued by the Ministry of Industry and Commerce through the Jamaican Trade Administration. A global annual limit is imposed on some imported goods. At present, imports are limited primarily because of high duties and the foreign exchange shortage.

Some food items and motor vehicles are imported exclusively by JCTC. Essential imports, such as petroleum, raw materials and basic foodstuffs, are subject to reduced taxes. Payments for imports must be registered with the Bank of Jamaica and approval of the Exchange Control Authority is required for advance payments. Available foreign exchange is auctioned twice a week.

Export licenses are required for shipments to communist countries and for certain specified goods, including firearms, minerals and antiques. Exporters must surrender foreign exchange proceeds within 90 days of shipment, but the Exchange Control Authority can approve the retention by the exporter of a part of the proceeds.

JORDAN

Jordan has been promoting reciprocal trade with developing nations involving Jordanian phosphate. Government regulations, recently enacted, strongly encourage foreign bidders on state procurement contracts above a specified level to counterpurchase potash or phosphate for at least one-third the value of the contract.

Countertrade obligations are approved and monitored by the Ministry of Industry and Trade. All import policy is administered by the Import Committee, which is made up of representatives of the Central Bank and the Ministries of Finance and Customs, and Industry and Trade. An Economic Security Committee exists which has the power to amend or issue regulations relating to economic policy.

Trade and Foreign Exchange Controls

Most imports require licenses issued by the Ministry of Industry and Trade. Licensing is a formality and the cost is normally equivalent to 4% of the value of the shipment. Some imports are prohibited but normally only in cases where the import committee deems it beneficial to protect an infant industry. A foreign exchange permit is also a formality and is required with the import license. Import financing arrangements must be approved by the Central Bank. Exports proceeds must be surrendered within six months of shipment unless the exports are shipped to Jordan's Arab neighbours.

Exporters and Jordanian residents may not maintain accounts in banks abroad. All trade with South Africa and Israel is prohibited.

MALAYSIA

The government of Malaysia made a policy decision to approve countertrade in 1982, and has been promoting its use for government tenders since 1983. Although the policy has been applied flexibly and countertrade has generally not been an absolute requirement for bidding, countertrade proposals will certainly improve the bidder's chances of success.

Prior to 1982, Malaysia had used countertrade on a limited basis with some COMECON members and with other Southeast Asian countries, usually under protocols settled through cash payments. Since then, the Malaysian Trade Ministry has issued a series of guidelines formalizing arrangements for countertrade, in which criteria for countertrade goods and partners are set out.

Suitable countertrade partners are defined as: countries bidding on construction projects, supplies and services; countries with which Malaysia has been running a persistent trade deficit; countries that are primary markets for Malaysian commodities and with which Malaysia has a favourable balance of trade; socialist countries that have a shortage of foreign exchange and with which Malaysia has a trade surplus; and developing countries that produce or export petroleum products and that have shown willingness to countertrade those petroleum products. The aim of Malaysian policy is to promote the sale abroad of

Malaysia's commodities and manufactured products and to reduce the undeniable political effects of trade surpluses.

A list of goods available for countertrade has been prepared by the Trade Ministry but as it appears to list all of Malaysia's exports, its utility is limited. It has been determined that readily marketed goods, notably tin and rubber, may only be countertraded to developing nations and that countertrade is to be used where Malaysia's manufactured products face entry and marketing problems. Imported goods must be priority items which are either not manufactured in Malaysia, or are manufactured only in insufficient quantities. This includes machinery and equipment, fertilizers, rice, sugar, cotton and chemical products. In order to qualify for countertrade, exports must be shown to be additional to Malaysia's normal sales abroad.

Unlike Indonesia, which has fixed the percentage of countertrade required in a contract, most terms are negotiable in Malaysia. Unit Khas countertrade, in the International Trade Division of the Ministry of Trade and Industry, is responsible for drawing up lists of available goods, determining if an offer is acceptable and assisting in determining sources of supply. It is hoped that the guidelines will eventually be adopted by the private sector.

Countertrade deals to date have included the purchase of Yugoslavian electrical equipment in exchange for tin and rubber, and steel rails from Japan for tin, rubber, crude oil and palm oil. In an offset arrangement, Malaysia has purchased two patrol boats from South Korea, one to be imported and the other to be constructed in a Malaysian shipyard in exchange for a 100% compensation in crude oil, palm oil and timber. In a very recent transaction, a major Japanese trading house sold a container gantry crane to the Klang Port Authority and has agreed to purchase veneer, plywood and related timber products.

A recent call for tenders for the purchase of air traffic control equipment required bidders to submit offers with a 100% counterpurchase requirement. The bid requirements further included a Letter of Undertaking, a Compensation Agreement and an Assignment Agreement in draft form. The penalty for non-fulfillment of obligations in this instance was limited to 15%.

Trade and Foreign Exchange Controls

In order to protect local industries, a number of imports are subject to quotas, which are reviewed from time to time. Specific import licenses are required for certain other imports, including all those from China. Foreign exchange is made available for permitted imports after exchange control requirements are met.

In normal trade transaction, proceeds from the sale of exports are to be repatriated to any commercial bank in Malaysia within six months. In a countertrade situation, the central bank approves procedures for the settlement of accounts on a case-by-case basis.

Exports, including rubber, textiles, fish, meat, sugar, soap, iron and certain other commodities, require licenses.

MEXICO

Mexico is faced with one of the world's largest foreign debts, estimated at $82 billion (US), and has looked to countertrade as a tool to address this problem. Mexico's latest Industrial Development and Foreign Trade Program proposes to rectify the country's balance of payments problem through countertrade. By 1988, manufacturers will be expected to cover 50% of their imports by exports and by 1995, this figure is supposed to rise to 75%.

In December 1982, Mexico set out its 'Exchange Controls Decree', amended in March 1983 by the 'Supplementary Exchange Control Rules Applicable to the Use and Transfer of Foreign Exchange Generated by Exports'. It was further amended in February 1984 by additional rules that stipulated how foreign exchange proceeds may be left in accounts abroad to be used for purchasing imports.

The rules state that all barter and countertrade transactions require the approval of the Bank of Mexico and the Ministry of Trade and Industrial Promotion (SECOFIN). When the proposal is accepted, the Mexican exporter receives a permit stating that there is no right of acquisition of foreign exchange; and payment for imports shall be charged to the exporter of the specified goods. If the Mexican exporter receives cash as partial payment, it is allowed use of the foreign exchange proceeds to finance its own imports. Any foreign currency not so used is sold at the controlled rate of exchange to the government through national credit institutions, and special receipts, called 'comprobantes', are issued.

Comprobantes allow the Mexican exporter to acquire foreign currency at the controlled rate of exchange in the amount that it has generated from exports and sold to the credit institutions. The controlled rate is less than free-market, so it is to the benefit of the Mexican exporter to obtain comprobantes. Furthermore, the certificates may be transferred, so that an importer may have access to cheaper foreign exchange. In order to effect the transfer, the importer must present an import permit, the exporter's proof-of-sale of foreign exchange and the authorization by SECOFIN to the credit institution.

The criteria for approval of countertrade proposals are basically that the goods used for counterpurchase must not be traditional exports or, if they are, then they must be sold in a market that would be new. Although SECOFIN and the Bank of Mexico actually make the decision for approval, all administrative work is carried out by the Mexican Institute of Foreign Trade (IMCE) which co-ordinates all countertrade deals. Initial enthusiasm for countertrade has waned somewhat as it appears that there was no notable increase in Mexican exports achieved through this method.

The view is that where there are two identical offers to sell goods or services to Mexico, the one with an attractive countertrade component, or from a company with a history of Mexican purchases, will stand a better chance of obtaining an import permit. Special consideration is given to firms that bring Mexican exporters to new markets or provide the assistance needed to upgrade Mexican production and marketing skills to an internationally acceptable standard. Foreign firms that arrange licensing agreements are expected to transfer designs as well as production, and they must also engage in research and development in Mexico.

Private countertrade activity has been fairly limited, but it appears that the prospects for deals with state-owned enterprises are encouraging. The government owns 380 companies, of which the top ten account for 80-90% of all Mexican foreign trade. The state enterprises have successfully dealt with Mexican capital goods instead of commodities. Oil and other hydrocarbons will not be eligible for countertrade as hard currency earners, although the Mexican/Brazilian clearing agreement has resulted in the sale of Mexican oil for Brazilian foodstuffs and oil-drilling equipment.

State enterprises have sold railway cars to the U.S. for cash and reduction of outstanding debts; iron products for plant and equipment; and tubes for oil-drilling for Soviet technical assistance, equipment and spares. Volkswagen's Mexican subsidiary has been selling coffee, under certain conditions, in return for permission to import auto parts.

Trade and Foreign Exchange Controls

All imports require licenses issued by SECOFIN. The permits, which are good only for 90 days, will not be issued for a wide range of goods which have domestic substitutes, or are considered luxury items or other non-essentials. Some commodities are eligible for 'open end' licenses which are good for six months to a year, with an overall limit. Where imports are specified by SECOFIN as essential, foreign exchange will be made available at the controlled rate, whereas non-essentials must be financed at the higher free-market rate.

SECOFIN is also responsible for issuing export licenses required for almost all exports. Some exports are prohibited. Foreign exchange proceeds in excess of 200 000 pesos a week must be surrendered to credit institutions within one month. Special accounts may be maintained by exporters, allowing them to purchase foreign currency at the controlled rate. This currency may then be used to purchase imports, pay related expenses and meet outstanding debts to foreign suppliers. U.S. dollar deposits may also be accepted and export-related loans may be made in foreign currency.

MOROCCO

Although Morocco has not issued any policy statements or passed any regulations, countertrade is looked on favourably where non-essential imports to Morocco are involved. Countertrade transactions are approved on an individual basis by the Director of Foreign Trade in the Ministry of Commerce, Industry and Tourism and by the Office des Changes.

In order to receive an import license, it must be determined that the Moroccan exports are going to a new market or are above traditional export levels, and that the goods have substantial added value. Minerals, wine, leather, foodstuffs and textiles are among the items proposed for countertrade. Morocco's major export, phosphate, is sold abroad by the state-owned Office Cherifien des Phosphates and is not regarded as an item appropriate for countertrade.

Morocco does have regulations concerning foreign content in the automotive industry. It requires a 60% domestic content in assembled cars and trucks. Where this is not possible, the automaker is required to take up the shortfall by the export of spare parts made in Morocco.

Bilateral trade agreements with Eastern bloc nations have been terminated. Morocco prefers to utilize trade protocols that do not require an obligation to trade but merely propose goods for export. Although countertrade presently represents an insubstantial amount of trade for Morocco, it is believed that activity in the field will increase in an effort to preserve foreign currency and overcome trade credit restraints.

Trade and Foreign Exchange Controls

Imports are classified in three categories: List A consists of freely importable goods; List B covers goods which require an import permit; and List C deals with prohibited goods. In order to import goods in List A, the importer must sign an "import commitment" which is registered with an authorized bank and which may make payment upon the presentation of the required documents. Administrative approval is not required for a List A import. Duties may range as high as 60% for non-essential goods.

There are few restrictions on exports, although some licenses may be required and state-owned enterprises have an export monopoly on all fruits, fresh vegetables, raw cotton and cotton by-products. Foreign exchange proceeds must be surrendered to authorized banks within one month of the payment due date, ideally within 120 days of shipment.

NEW ZEALAND

A cabinet directive issued in April 1979 requires that all government procurement tenders in New Zealand valued at over $2 million (NZ) include a request that bidders submit proposals on offset or counterpurchase arrangements. All purchasing by government departments and publicly-financed purchases are included, along with that of state-owned enterprises, such as Air New Zealand, and the railroad, highway and public health sectors. The directive does not affect purchases by the private sector.

New Zealand government brochures state the objectives of its offset policy:

- to offset large expenditures of overseas funds on the purchase of equipment which is not, or cannot be, economically produced in New Zealand;
- to raise the levels and range of technology in New Zealand;
- to encourage internationally competitive manufacture and services;
- to improve industrial design and quality assurance;
- to open up new markets;
- to create and maintain jobs.

The following types of offsets are deemed acceptable:

- joint manufacture of assemblies or sub-assemblies of the specific equipment under tender, for internal use or export;
- collaboration in design, development and production;
- technology transfer;
- joint research and development;
- purchase of, or market assistance for, New Zealand-produced technological products.

New Zealand countertrade policies also cover counterpurchase, for which objectives differ from those of the offset policy. Counterpurchase objectives include the following:

- the partial balancing of the expenditure of overseas funds with associated export receipts;
- the strengthening of New Zealand's relationships with other countries by promoting increased levels of trade, possibly in new commodities and manufactured products; and
- the enhancing and broadening of a two-way relationship between a preferred supplier and New Zealand.

Although the countertrade component of a bid is nominally voluntary, where tenders are comparatively equal a good countertrade package could be the deciding factor. However, the key criteria in successful bidding remain price, technical specifications, and delivery.

After bidding has closed, a group of bidders are short-listed, and they then meet with the Department of Trade and Industry (DTI) to discuss how the countertrade obligation is to be met. Of particular interest to the New Zealand government are offset proposals for domestic manufacturers and the transfer of technology to New Zealand companies, particularly when related to the nation's primary industries. Counterpurchases of fish and horticultural products are also suitable. Meat and dairy products, which are New Zealand's traditional exports, are not readily approved for countertrade as the markets to which the nation already sells may be disrupted. New Zealand's policy aims to expand exports on a long-term basis. DTI will assist bidders in finding suitable products and contacting domestic producers.

Before the final contract is signed, the bidder will execute an agreement with DTI formalizing all countertrade arrangements. Counterpurchase or offset obligations can be transferred to third parties. The Department checks compliance through semi-annual purchase reports and by contacting the domestic suppliers of the countertrade goods. Models of suggested contracts for counterpurchase and monitoring arrangements are provided by government.

Among the transactions completed to date, a Danish firm supplied a ferry for horticultural products and seafood amounting to half of the $50 million (NZ) contract; Hungary has supplied railway rolling stock for pharmaceuticals; and mutton has gone to Poland in exchange for coal mining gear and other heavy engineering equipment. The new government has also stated recently that, despite current difficulties, it sees oil bartering as the main means of payment for the growing market for New Zealand meat and dairy products in Iran.

Since 1982, a requirement has been put in place for the benefit of New Zealand's professional service organizations. These organizations receive 30% of a contract's feasibility and planning studies and project management, or alternatively, 30% of project design and design management. These mandatory requirements for domestic service employment may be relaxed if they would result in excess costs to the project or if they would violate secrecy agreements or technology guarantees given by the bidder or sub-contractors.

Trade and Foreign Exchange Controls

The new government, elected in mid-1984, has moved to introduce wide-ranging economic reforms aimed at moving New Zealand, in the long term, to a more open, more flexible economy, with greater wage and price stability. These reforms have included, inter alia, the adoption of a floating exchange rate; the removal of interest rate controls; the removal of controls on overseas borrowing and foreign exchange purchases; and the granting of unrestricted access to New Zealand's capital markets for foreign-owned companies operating in New Zealand. As well, the Overseas Investment Commission announced in March 1985 that limits on foreign ownership in financial institutions, advertising agencies and fish processing companies had been abolished.

The government has also begun to liberalize the import licensing system. Measures taken include a) an increase of import license allocations to a minimum of 10% of the domestic market for goods not covered by industry development plans; b) removal of restrictions on who can bid for licenses; c) removal of limits on the number of import licenses that can be held by any one firm; and d) year-round availability of licenses not won during the annual tendering round. The government has also begun discussions on what form tariff policy should take once the import licensing system has been removed.

NIGERIA

Nigeria has seen its level of imports fall considerably due to declining availability of foreign exchange, as a result of reduced oil production and revenues. Further, project financing is becoming more difficult to obtain as financial institutions are becoming more cautious and unwilling to increase their exposure in a country where debt service is expected to rise to 55%, or even 60%, of exports in the next two years. Countertrade has been discussed as a method of alleviating the situation but the number of transactions have been few to date.

Nigeria has issued no official regulations on countertrade. Obstacles include both a lack of co-ordination among Nigerian agencies and officials, and a requirement that export revenues be divided equally among the nation's 19 states, a requirement which makes establishment of an approved accounting system very difficult. Nigeria's official view is that countertrade is an acceptable policy only for countries experiencing a sharp economic decline. Nigeria considers itself in this category and is now pursuing a policy of countertrade. Approval for countertrade transactions is made through an inter-ministerial board consisting of the Ministers of National Planning, Petroleum and Energy, Finance, and Commerce and Industry.

As Africa's largest oil producer, with production of 1.24 million barrels per day in 1983, Nigeria's exports of crude petroleum amount to 98% of its total offshore earnings. Allthough Nigeria was interested in oil barter as a result of the 1977-78 oil glut, it officially opposed countertrade or barter for oil in order to preserve its position as a member of OPEC. Nonetheless, in a surprising move, it entered into a one-year agreement with Brazil in 1984, renewable for a further year, to exchange crude oil for oil products, paper, chemicals, auto parts, salt, sugar and steel. The value of this bilateral trade is estimated at $500 million (US) annually.

Nigeria now seems to be interested in negotiating only a single major comprehensive countertrade agreement with a trading partner. A recent Canadian offer of milk for oil was rejected as totally unacceptable, and discussions with Canadian producers willing to exchange grain and military vehicles for oil has yet to bear fruit. Nigeria is much more interested in large deals with a greater product diversity, that would provide sufficient economies of scale to make the deal worthwhile.

An example of this trend is a recently signed agreement between Nigeria and a number of French companies, calling for the purchase of $500 million (US) in oil. Of the total amount, $150 million would be used to settle outstanding debts between Nigeria and the companies; $100 million would be alloted to one of the partners to import raw materials for its plants in Nigeria; $200 million would be allocated for import of spare parts, general merchandise, plastics, and raw materials for another French partner's activities in Nigeria; and the remaining $50 million would go to other French firms. The major benefit accruing to the French partners is that the problem of obtaining import licenses for the Nigerian operations has been overcome through countertrade.

The present arrangement used in oil countertrade is for the foreign buyer of crude oil to sign a one-year purchase contract (usually renewable for an additional year), entitling it to export rights to Nigeria. The rights are transferable and the exporter, whether an original party or an assignee, will automatically receive import permits for its product through a Nigerian importer. In an oil countertrade scheme, it is important to reassure the government and its oil marketing arm, the Nigerian National Petroleum Corporation (NNPC), that the oil will not be dumped on the international market, undercutting Nigerian (and OPEC) price maintenance policies. The government must also be assured that the sale of the oil will not compete with, or replace, the oil sold in traditional markets.

Apart from crude oil and some oil products, countertrade goods are available primarily from the agricultural sector. However, Nigerian produce is generally not price-competitive in world markets and problems in production and transportation would make it difficult to locate and ship any major quantity required for a large-scale countertrade transaction. Supplies are often not even sufficient for domestic requirements.

Nigeria succeeded in reducing imports by 30% between 1981 and 1984, and reduced its current account deficit from 3.4 billion to 126 million Naira between 1983 and 1984. However, its 1985 budget aims to reduce import activities even further, probably through a cutback in import licenses. Any party intending to export to Nigeria would be well advised to deal only in those items that are given a very high priority by the government.

Trade and Foreign Exchange Controls

Importers must be registered with the government to qualify for import licenses, which are required for all goods. Certain goods, such as luxury items, or goods which may be obtained locally, or whose importation would harm local industry, and goods hazardous in themselves may not be imported at all. Licenses are granted on a priority basis; high on the list at present are spare parts, machinery and certain major food items. Advance import deposits are required, ranging from 10% for high priority items to 250% for motor cars.

Exports of some agricultural items, explosives and certain art objects are prohibited. Export licenses are required for tobacco, hides and skins, petroleum products, minerals and some agricultural products. Oil exports have special considerations. Other goods do not require an export license. No trade is permitted with Namibia or South Africa.

Foreign exchange proceeds, except those for petroleum or petroleum products, must be surrendered via commercial banks to the Central Bank within 90 days of the shipment of the goods. Nigerians are prohibited from maintaining accounts abroad.

PAKISTAN

Although countertrade has had limited application in Pakistan, the government is conducting an intensive review designed to increase its use. Experience has been primarily with East European bloc countries, Finland, Sweden and China, and negotiations are being carried out with Brazil. Private firms are allowed to enter into countertrade contracts with foreign governments if reciprocal letters of credit are established in acceptable currencies. While foreign suppliers are not obliged to use countertrade, preference is sometimes given to those firms that offer this facility.

In 1984, 65% of import purchases were made by private sector companies, excluding the substantial defence procurements. When a private firm wishes to use countertrade, approval must be granted in advance by the State Bank of Pakistan and the Ministries of Finance and Commerce. There are several trading firms in Pakistan who have extensive countertrade expertise.

State trading firms have also been involved in a number of countertrade deals. The state airline, PIA, has purchased six Boeing airliners and 20% of the price will be paid in locally produced goods. Buybacks in mining projects are also being considered for foreign participants. The Trading Corporation of Pakistan has recently traded rice and cotton under countertrade agreements.

Trade and Foreign Exchange Controls

All imports which are not prohibited for religious or security reasons require licenses. There are three categories of goods: prohibited, restricted and permitted. Restricted items may be imported only by the public sector, or from specific sources (e.g., dates may only come from Iraq) or they may be consumer goods subject to quotas. Permitted goods may be freely imported except for those that only state-owned enterprises or industrial users may bring in. Licenses, issued by the Chief Controller of Imports and Exports, are valid for one to two years, depending on the nature of the import. Specified goods from India may be imported only through the state-owned Trading Corporation of Pakistan.

The State Bank does not usually allow advance payments for imports. Authority has been vested in a number of banks and other credit institutions to handle foreign exchange and oversee exchange surrender requirements.

Exports of most items may be made freely. Quotas exist for some agricultural products, while others, such as rice and cotton, are restricted to state-owned enterprises. Exchange proceeds must be surrendered within four months of shipment. Concessional financing and tax rebates are available as incentives to some exporters.

PERU

The official position of the Peruvian government with regard to countertrade has developed in response to Peru's debt crisis. Peru has, over the past two years, used countertrade as payment primarily to East European countries on overdue debt. No other type of countertrade transaction has taken place as Peru does not yet have a legal framework to approve such transactions.

The Belaunde government drafted legislation, in late 1984, to regulate countertrade transactions that fall outside of agreements associated with debt rescheduling. The draft legislation is expected to receive Congressional approval under the new APRA government before the end of 1985.

The proposed legislation sets up a Committee to review and approve countertrade transactions. The proposed Committee will be chaired by the Vice-Minister of Trade and will include representatives of the Ministry of Economy and Finance, the Central Bank, Banco de la Nacion, the Peruvian State Agency responsible for promoting non-traditional exports — Fopex, and a representative of the private sector. The Committee will develop the necessary administrative framework for the operation of countertrade transactions. One of the objectives of countertrade will be to stimulate non-traditional exports and to establish new markets for export products. Until the proposed law is passed, no countertrade operations can take place unless they are conducted under a debt renegotiation.

The Peruvian government has undertaken numerous countertrade transactions to cover debt repayments with East European countries and with Israel. Peru's countertrade agreements with the U.S.S.R. have included shipments of fish products, shoes, textiles, and ceramics as well as traditional mineral exports. In 1985, Peru expects to cancel approximately $150 million (US) of its debt with the U.S.S.R. using traditional and non-traditional exports. Czechoslovakia has also offered to cancel $50 million of their debt with traditional and non-traditional exports (e.g., fishmeal, copper, lead, zinc, coffee, frozen fish, and artisanal products). The Czechs are also proposing a countertrade transaction to finance a new stage of a rural electrification project valued at $22 million, bartering non-ferrous metals over a 10-year period. Debt on a Yugoslavian irrigation project, Chira-Piura, has been renegotiated ($35 million) with 20% of traditional products and 80% of non-traditional products, through a Panama-based countertrade company.

Israeli companies have agreed to accept countertrade to satisfy their debt because they are able to fairly easily identify markets and because they are financially unable to wait for a possible cash repayment.

Trade and Foreign Exchange Controls

The General Directorate of Foreign Trade in the Ministry of Economy, Finance and Commerce is responsible for the issuance of export and import licenses. Most items can be imported without restriction subject to duty. Some luxury items have just recently been denied import, but Canadian export products are not affected.

The government of Peru controls a significant part of the economy and is the principal exporter of silver, gold and other refined metals, fish meal and fish oil, petroleum derivatives and cotton. Some specified commodities, such as foodstuffs, require prior license in order to be exported and all traditional exports must be covered by irrevocable letters of credit. Tax credit certificates (CERTEX) are available to exporters of non-traditional products.

PHILIPPINES

The Philippine Ministry of Trade and Industry is currently examining the use of countertrade on a large scale as a method of retaining scarce foreign exchange. Until a few years ago, countertrade was only allowed with East European bloc nations. Since the late 1970's, the Philippines have faced a shortage of foreign currency and credit restrictions as the global market prices for its major export commodities — sugar, copper and coconuts — fell drastically. Countertrade is being seen as a possible way to ease the country's economic problems. Government policy, however, is designed to encourage the development of non-traditional exports only.

A number of countertrade deals have been worked with COMECON and other nations, including the sale of Philippine coconut oil for Romanian oil production equipment and Chinese petroleum. Other commodities shipped for Chinese oil include copper concentrates, PVC resins and forest products. Countertrade is also being examined as a way of financing new capital projects, but only a few countertrade transactions have actually taken place.

The state trading arm, the Philippine International Trade Corporation (PITC), administered by the Ministry of Trade and Industry, is turning into the favoured tool for countertrade transactions. Its official function is to promote exports and it will work with companies wishing to sell to the Philippines, handling straight barter or more complex counterpurchase arrangements. PITC deals with the government's top import priorities which are raw materials, spare parts and critical supplies and, on occasion, capital equipment of a crucial nature.

PITC has been assigned to administer an offset deal with the American helicopter company Sikorsky Aircraft that requires the export of Philippine goods over a period of five years to a value equivalent to 40% of the Philippine contract. At present, drills and taps are being exported under the program. It has also arranged the sale of bananas to South Korea for polyethylene resin. The KKK Processing Center Authority, which is involved in cottage industry and agricultural development, has signed a PITC-assisted contract with Andre & Cie, S.A., a Swiss-based trading house, to sell $24 million (US) worth of goods for Swiss products, primarily agricultural equipment. PITC has also entered into a deal with the Malaysian International Trading Corporation (MICO) under which each will take goods valued at up to $5 million (US) annually. MICO will import household items, garments, costume jewellery, leather products and foodstuffs while PITC will purchase refined palm oil, rubber products, dental alloys and fertilizer.

Unfortunately, many of the products proposed by PITC for countertrade are unappealing to foreign suppliers. These products include handicrafts, rattan furniture, and bananas. Most of the Philippines' major exports are hard currency earners, including electronic components, sugar, pineapples and copper concentrate. However, production of electronic microchips and pineapples is completely spoken for by the producers' parent corporations, Texas Instruments and Dole. There is presently a shortfall in sugar production, as well as in coconuts. Copper and timber may be available in limited quantities, but it appears that possibilities for countertrade in the Philippines are limited due to the insufficient availability of exportable commodities.

Trade and Foreign Exchange Controls

Some imports are banned for health or security reasons and others, which may compete with domestic industries, require prior government approval. The Central Bank approves capital equipment imports where they are paid under deferred payment schemes extending over a year; for capital equipment valued at over $50 000 (US) paid in cash or within a year; and for some consumer and non-essential goods. PITC must be used in trade with countries with centralized economies, with the exception of Yugoslavia. All trade with South Africa is prohibited.

Banks are authorized to issue export permits upon registration of the exporter's report of foreign sale. The Central Bank and, in some cases, the Ministry of Trade, approves deals involving gold, copra, coconut oil and sugar-based commodities. The Philippine Sugar Commission maintains a monopoly on the export of sugar.

Once the bank has confirmed that payment has been received or arranged, customs officials will allow shipment of the goods. Export proceeds must be surrendered within two months of shipment although, with the approval of the Central Bank, foreign exchange earnings may be used towards the repayment of loans for imports of machinery and raw materials.

POLAND

At the present time, Poland is one Eastern Europe's most difficult countries in which to arrange countertrade transactions. As a nation with severe financial problems, Poland's policy is to reduce imports to an absolutely minimal level and conserve foreign exchange as much as possible. Further, as the government undergoes reorganization, there is considerable bureaucratic confusion as to who is in control of foreign trade transactions.

Countertrade of 100% is thought to be the inflexible standard. The value of Polish export goods is the determinant in setting the value of goods to be imported. The situation is so difficult that long-term countertrade transactions appear to be beyond the acceptable risk level for most trading houses or exporters. As is the case of some other Eastern European countries, countertrade goods may be of unsuitable quality, price or quantity. Possible services which may be used for countertrade include transportation (although shipping seems to offer only 50% offset), film-making and sub-contract work with Polish engineering construction firms, whichi have been undertaken throughout the world.

Until the economic situation in Poland improves, the only imports which will be considered will be high priority items.

ROMANIA

Canadian exporters have had extensive exposure to Romanian countertrade practices through the sale of Candu nuclear reactors in I98I. Financing for this contract was provided by the Export Development Corporation in the amount of $I billion (CAN). Romania purchased two reactors with an option for two others. Countertrade in this sale involved the transfer of Candu-600 technology to Romania and demands for 100% counterpurchase from all sub-suppliers. Negotiations proceeded on a case-by-case basis with counterpurchase agreements signed for a variety of different percentages.

Romania is the only East European nation that has set out formal regulations on countertrade and it requires a regular balancing of the trade accounts of all foreign trade organizations. Official Decree No. 276 (of July 25, 1979), along with an investment law, a foreign trade law and repeated political references, have placed countertrade at the centre of Romania's trade policy. Full countertrade coverage is requested of almost all imports, including items that fall into the category of priority imports. However, despite existing regulations and political support at 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

Electric will invest with Saudi Airlines to establish a jet engine overhaul facility.

During the 1984 gestation of the MODA offset program, Saudi government and business leaders increasingly looked to offsets as the formula for future industrial development, employment creation and import substitution, in the face of rapidly declining government income from petroleum exports. However, the current economic retrenchment has produced considerable reassessment of the long anticipated prospects for implementing offsets beyond the Boeing and General Electric projects, in such sectors as mineral extraction and processing, machinery production and food processing.

With petroleum output running at about one-third previous levels, the resultant cutback in income has restricted the 1985-86 government budget and compelled many Saudi companies to utilize their capital reserves as working capital until contract payments are received. The result is that most Saudi government and private venture capital, originally targeted for new joint ventures, has dried up or remained invested abroad. The Saudi Industrial Investment Fund has thus been left to provide most of the approximately $720 million in capital to at least match the Boeing and General Electric commitments.

With the Saudi economy expected to remain in a consolidation stage until 1990, it is now thought that the Saudis will have neither the venture capital nor the high-tech human resources to expand the offset program significantly beyond this $1.5 billion (US) investment in next generation technology transfers.

While the government continues to caution foreign companies that offsets may be a prerequisite component of major future purchases, the MODA policy has not been duplicated as Saudis apparently wait to measure the success of this first experiment.

In contrast to offsets, barter or counterpurchase of petroleum products has not been endorsed officially and has been used only exceptionally as a Saudi trade policy instrument. In January 1984, the Ministry of Defence and Aviation announced the purchase of $4.8 billion (US) in French anti-aircraft missile systems, while subsequently denying that some $1.2 billion of the payment was made in discounted oil. This was followed, in August 1984, by government acknowledgement of a western aircraft industry announcement that ten Boeing 747 aircraft with Rolls Royce engines had been sold to Saudi Arabia (MODA) in exchange for Rolls Royce accepting $1 billion (US) in petroleum products. It is thought that subsequent Saudi assessment of the impact of this unexpected injection of petroleum into finely balanced international markets has cancelled any further consideration of other proposed oil-for-arms deals.

Trade and Foreign Exchange Controls

Import and export licenses are not required, although some imports are prohibited and others such as medicine, may be brought in only through licensed dealers.

No controls are placed over foreign exchange proceeds. Subsidies are available for some exports.

TANZANIA

Tanzania has recently adopted countertrade as a part of its general foreign trade policy alternative to using scarce foreign exchange. It has previously had extensive experience with East European nations through its bilateral clearing accords. Despite this move to countertrade, Tanzania has an official policy prohibiting countertrade in 'traditional exports', which includes coffee, tea, cotton, raw sisal, tobacco, cashews and cloves, and probably rubber and semi-precious stones. These goods are Tanzania's most saleable export goods although the government has suggested sisal twine, finished leather and cotton goods would be available. However, government policy appears to be highly flexible and traditional exports are available to parties wishing to import high priority items, such as raw materials, spares and pharmaceuticals.

Tanzania also appears interested in buy-back arrangements. A Bulgarian supplier of tanning chemicals is being paid with semi-processed leather and, in another case, a Bulgarian supplier of textile dyes is receiving dyed yarn. Joint ventures do not appear to be utilized to any large extent, although the government is now encouraging them between Tanzanian public and private-sector companies and foreign firms.

Bilateral trade agreements have proven successful for Tanzania. It has exchanged coffee, cotton, tea and tobacco for medical equipment, bicycles, dyes, veterinary drugs and soap from the GDR; textiles for refrigerators, tires and batteries from Mozambique; and sisal products, cloves and seafood for Zimbabwean farm equipment, coal and iron.

Any negotiations involving countertrade should start with the ministry responsible for the sector of the economy which will be importing the foreign product. That ministry will then, in turn, deal with the Ministry of Trade for authorization, and final approval will come from the Ministry of Finance and the Central Bank.

Obtaining goods from Tanzania may be an arduous task. Should the foreign supplier be able to find goods for countertrade, it would be well advised to conduct a rigorous quality analysis before shipping. Transport itself is a great problem and it may be difficult to get the goods to port. Although Tanzania has the most experience in countertrade of any African nation, co-ordination between the various government ministries is chaotic. The economic situation in Tanzania will probably not improve significantly, although the government has recently adopted a more liberal attitude for trade and is now allowing the retention of foreign exchange in an external account to finance the import of raw materials. This has resulted in the import of a number of consumer and capital goods that have been excluded over the past few years.

Trade and Foreign Exchange Controls

Although the general rule has been that exporters are required to surrender all foreign exchange proceeds, the government has attempted to liberalize its requirements. Existing firms in the agriculture, port and tourist sectors may retain 10-15% of their proceeds in a separate account in order to help finance their own imports. Newly-established firms may be allowed to obtain a far greater share. Exporters also have been given the right to maintain foreign bank accounts.

THAILAND

Although countertrade has attracted considerable interest in Thailand, its use has been limited, probably due to the make-up of the Thai economy. The private sector is highly influential and the government has accordingly pursued a policy of free trade. Nonetheless, the Ministry of Commerce established a high-level countertrade unit in September 1984 to establish policy guidelines and set out conditions which would encourage foreign suppliers of government agencies to buy Thai goods, particularly surplus agricultural products. Some initial discussion of counterpurchase has taken place with regard to military procurements, but nothing has come of these talks.

Agricultural sales have been the most prevalent and are handled by the Marketing Organization for Farmers (MOF), a state corporation controlled by the Ministry of Agriculture and Co-operatives. In 1981, Thailand entered into large-scale barter agreements with South Korea, Romania and the U.S.S.R., exchanging agricultural produce (primarily tapioca and corn) for fertilizer, a commodity in very short supply. The countertrade committee is considering expanding the list of agricultural goods available in view of the continuing great requirement for fertilizers. Rice has been exchanged for petroleum and palm oil from Malaysia, and sugar has been utilized in the purchase of Indonesian-built aircraft.

Until the development of a definite countertrade policy, countertrade agreements are being examined on a case-by-case basis. The only settled criteria are that 1) the goods to be countertraded must be surplus in Thailand; 2) the products should not be re-exported; 3) prices should reflect local or international price levels and not be inflated; and 4) proposals that run for a long term will be looked on more favourably.

Trading houses have established a major presence in the Thai market and prospective Western suppliers may find it easiest to approach the market through them. The Japanese sogo shoshas, for example, handle one-eighth of the country's foreign trade.

Trade and Foreign Exchange Controls

Imports are generally without restriction, although some are prohibited in order to protect a domestic industry and others require licenses. Advance payments in excess of $2 000 (US) require the approval of the Central Bank, as does the opening of revolving letters of credit or letters of credit whose terms are greater than nine months. Payments for imports are approved by credit institutions upon the submission of supporting documents. Some imports receive the preferential duty extended to all ASEAN members.

Some agricultural products require licenses for export or require prior approval. Proceeds must be sold within seven days of receipt to authorized agents and, in no case, later than six months after the date of shipment. There is a reduction in some taxes and duties for export-geared industries.

TUNISIA

Although Tunisia has not passed any legislation concerning countertrade, it is willing to accept countertrade as a legitimate trading tool. This is particularly so since the country is facing a soft market for petroleum and phosphates, two of its major exports, and a decline in agricultural sales due to import duties in the European Economic Community. Counterpurchases have been encouraged for Tunisia's state-owned trading firms, which are large importers. The companies receive a preferential allocation of import licenses when they find new export markets by countertrade in Tunisian goods.

The government organizations that deal with countertrade are the Directorate of Foreign Trade, which handles import and export licenses, and the Tunisian Central Bank, which oversees foreign exchange transfers. Tunisia has non-binding trade protocols with a number of other governments, where goals are set annually or every few years. There is no push to meet the goals unless there is a severe trade deficit. Under such protocols, France's Renault accepted Tunisian denim in exchange for cars and trucks and Turkish wheat was exchanged for Tunisian fertilizer. In another countertrade deal, a $70 million (US) phosphoric acid plant constructed by a French consortium is being paid for in phosphates and agricultural produce to one-third the value of the contract. A more recent countertrade deal involves the exchange of 6 000 tons of Chinese cotton and 150 000 tons of Chinese wheat for Tunisian fertilizer, particularly triple superphosphates.

Phosphate is the item offered for countertrade in the largest quantity, along with a wide selection of agricultural goods and some processed foods. Buy-back is also a possibility, since some Tunisian textile firms have offered to sub-contract the production of clothing in return for foreign-supplied machinery.

Trade and Foreign Exchange Controls

An import certificate is required for some specified liberalized imports, while non-liberalized goods require a license from the Directorate of Trade along with approval from the Central Bank. Some goods may be subject to bilateral or global quotas. Imports required for the production of exports are subject only to a customs declaration.

Government agencies maintain a monopoly on a wide range of imports, such as coffee, tea, sugar, drugs and tobacco, and exports, including wine and olive oil. Export proceeds must be surrendered within ten days unless otherwise authorized by the Central Bank.

All trade with Israel and South Africa is prohibited.

URUGUAY

Promotion of countertrade is an official policy of the Uruguayan government, both in its own capacity as purchaser of foreign goods and for the private sector. The government has set up administrative procedures to assist prospective countertraders, and the Central Bank is also very co-operative.

By Decree 162/1971, government agencies are required to add a clause to their calls for tenders stipulating that bids that offer more favourable solutions to the export of Uruguayan goods will receive preferential treatment. In addition, guidelines issued in 1981 specifically encouraged government agencies to utilize enterprises that hire local labour, use Uruguay's natural resources, or make high-risk investments in the country.

Both the Ministry of Economics and Finance (in particular its office of External Commerce) and the Central Bank are responsible for approving all countertrade transactions. Other government agencies, such as the National Meat Board, have also been involved in countertrade negotiations.

It has been the experience of bidders that a 100% countertrade commitment is required for government procurements. However, the type of countertrade carried out determines the actual percentage met; for example, the counterpurchase of traditional exports may only count for 33% of the countertrade commitment, whereas the counterpurchase of non-traditional and finished goods may fulfill 125%. A recent directive dictates the value of countertrade goods to be exported. In the case of meat, which is Uruguay's largest export, three times the value of the imported goods must be exported. There is an official list of items available for countertrade which includes beef, lamb, fish, rice, and wool, but approval of the goods may be dictated by availability and market price.

Most of the foreign partners involved in Uruguayan countertrade have been private sector firms, except where East bloc nations are involved, while at the Uruguayan end, the recipients have all been state-owned enterprises.

Among the deals entered into so far, the National Port Authority has agreed to purchase trains from the German Democratic Republic and Hungary in exchange for Uruguayan beef, citrus, wheat bran, fish, hides, shoes, and semi-precious stones. A very successful transaction, which commenced in 1982, has seen $82 million worth of Iranian oil being exchanged for $60 million in Uruguayan products. In 1983, $98 million worth of Iranian oil was exchanged for $70 million worth of Uruguayan beef, rice, wheat and chickens. Most recently, in March 1984, Iran sent $100 million worth of petroleum in exchange for 85 000 tonnes of Uruguayan rice and 11 000 tonnes of butter. Another transaction has involved the exchange of Uruguayan goods for Italian telecommunications equipment.

Trade and Foreign Exchange Controls

All imports must be registered before shipment to Uruguay. Registrations are usually for 180 days and most imported goods are subject to various import surcharges, taxes and duties.

Exports of some specified minerals are prohibited. Foreign exchange proceeds from export sales must be surrendered to qualified banks within three years of receipt. Some credits, in the form of reimbursements of direct taxes, may be available to exporters of non-traditional goods.

U.S.S.R.

Although the Soviet Union has promoted the use of countertrade and has established a department to deal with it within the Ministry of Foreign Trade, countertrade involving Western nations has been limited to large-scale compensation deals related to Soviet capital projects.

Industrial co-operation is the keynote here, and Western companies have been receptive because the projects have been large and the countertrade products marketable. Examples of buy-backs of this nature are natural gas from a pipeline using Western pipe, and equipment or bulk chemicals from a Western-supplied factory. These two sectors have been the most active ones for compensation projects. By 1983, 45 large industrial projects had been commissioned on this basis.

Counterpurchase has only rarely been used for the import of individual capital equipment. Priority imports generally do not require any countertrade obligations at all. There are no public regulations concerning countertrade and, where proposed, counterpurchase usually represents only a small fraction of the estimated contract value. Soviet bureaucracy feels that for small deals, countertrade is often more trouble than it is worth. As a result, only a small part of Soviet exports are in this form. Because energy and resource exports are the major elements in Soviet trade, countertrade will presumably continue to be concentrated in compensation deals in these sectors.

Compared with many nations, the U.S.S.R. has a healthy balance of trade. If foreign debt should worsen, then the U.S.S.R. might increase its countertrade requirements. Such a move would have to be made slowly, however, because a strong administrative set-up for counterpurchase does not yet exist.

When the Soviet Ministry of Foreign Trade engages in countertrade, negotiating practices are usually considered tolerable by Western partners. The initial countertrade demand generally ranges from 15-40% and the final countertrade commitment from 10-30%. The choice of salable Soviet countertrade products is wide but difficult to track down. Pricing is close to that of the world market but difficult to negotiate. The original length of the fulfillment period is 6-24 months, with penalties for nonfulfillment ranging from 15-50%. However, contract phrasing and implementation are correct and reliable because they are based on settlement documentation that is rated rigorous to rigid. Advance purchases are not appreciated and evidence accounts are of limited applicability in the U.S.S.R.

VENEZUELA

Venezuela's export economy is dominated by petroleum and oil related products, which account for 95% of the country's export revenues. Production is limited by OPEC quotas and the Venezuelan government is interested only in selling for hard currency. While countertrade in the energy sector is generally discouraged, a number of transactions have taken place.

Venezuela has arranged the exchange of 63 000 barrels of crude petroleum for 25 000 tons of Brazilian sugar over a period of three years. Italian technical assistance in agriculture and agro-industry has been purchased in exchange for petroleum under a 1979 agreement, and Nigeria and Venezuela have entered into an arrangement whereby heavy crude is shipped from Nigeria in exchange for light oil.

These transactions should be regarded as exceptional. By law, oil may not be bartered and the countertrade deals described were only made possible with the approval of the Venezuelan Congress. Prospective suppliers should not expect to receive oil as a countertrade product.

The Venezuelan government is, however, much more interested in expanding non-traditional exports and, as a secondary goal, in reducing the outflow of foreign exchange. Commercial countertrade transactions have been quite rare and have involved commodities which are often easily sold for cash on international markets. As part of a joint aluminum producing project, Japan has agreed to buy back 175 000 metric tonnes of Venezuelan aluminum each year. The Japanese partners have acquired a 20% interest in the state-owned aluminum company, called VENALUM. VENALUM has also entered into an arrangement with Jamaica exchanging alumina from Jamaica for an equivalent value of Venezuelan aluminum.

The Venzuelan Institute of Foreign Trade (ICE), the Ministry of Development and the Central Bank are the key agencies required for the approval of countertrade transactions. At present, no legislation exists setting out Venezuelan countertrade guidelines, although ICE and the Venezuelan Exporters Assocation (AVEX) are studying ways to promote countertrade in non-traditional exports. There may be an expansion of bilateral agreements, with the emphasis on small and medium-sized transactions.

Trade and Foreign Exchange Controls

In February 1983, the Venezuelan government, concerned by mounting foreign debt presently at $35 billion (US), implemented a number of selective exchange controls and certain import restrictions. These do not appear to be onerous to the majority of importers and exporters.

Some goods may not be imported, including coffee, salt, defence equipment, clothing, and footwear. In some cases, a government monopoly exists for the import of goods, including iron and steel. Foreign exchange receipts are required to be surrendered.

The Ministry of Development is responsible for the issuing of import licenses and prospective traders should be aware that there are quotas on some imports not originating in Andian Pact or LAIA countries. Some licenses do require an undertaking by the importer to purchase domestic products to a specified percentage. All imports from South Africa are prohibited.

The Ministry of Agriculture and Livestock handles export licenses for coffee, cocoa, rice and sugar; the Ministry of Development issues export licenses where the goods are deemed to be in short supply domestically.

The Ministry of Finance is responsible for export licenses for gold and precious stones. Hides and skins from certain endangered species, scrap metal and capital equipment may not be exported.

Exporters of some traditional commodities, including coffee and cocoa, may qualify for export subsidies, while non-traditional exports may be given government support through the Export Financing Fund, which provides credit facilities at favourable interest rates. Certain tax credits also exist.

YUGOSLAVIA

Yugoslavia is unique among Eastern European countries due to its high degree of decentralization. It is composed of six republics and two autonomous provinces which appear to operate in an independent manner, both politically and economically. This lack of centralization, coupled with the peculiar Yugoslavian arrangements for foreign exchange control, tend to make countertrade transactions difficult to negotiate. In fact, many experienced countertrade houses in Vienna have backed away from countertrade projects in the country.

Key organizations in the control of countertrade procedures are the 'Self-Managing Interest Communities for Foreign Economic Relations' (SIZ). Each SIZ carries out monitoring operations of the regional trade in goods under the different import exchange categories. The SIZ grants authorizations for foreign currency which the importing enterprise takes to the Chamber of Economy of Yugoslavia, and obtains a document that will free foreign exchange from a commercial bank. Before an import license and the requisite hard currency will be issued, the importing organization must present an export contract for an amount proportional to the planned import (now thought to be approaching 100%). The Federal Executive Council and Federal Trade Secretariat establish the countertrade ratios within the import exchange categories.

It is sometimes difficult to get a countertrade linkage between local importing and exporting companies. Export companies may not be willing to assist the importer as the exporter will likely lose its 46% hard currency retention quota. The Yugoslavian government does not have the authority to force an exporter to link exports to countertrade in an important project. Most countertrade deals of significant size in Yugoslavia have been buy-back transactions.

Some import and export houses are tied together into a trading group and may not only be involved with the sale of goods, but may also deal with services such as transport or engineering. It is possible that in some instances these services may be offered in countertrade.

While Yugoslavian countertrade goods are considered better than average in quality and there is a good deal of flexibility in what qualifies as countertrade, the lack of linkage between export and import companies is only one problem that potential western suppliers must face. The SIZ structure encourages economic activity only within a single political entity; the countertrade transaction involving two different republics in Yugoslavia may be almost impossible to achieve.

In March 1982, laws were passed in Yugoslavia which made it possible for importers of raw material, who negotiate compensation agreements in excess of 100%, to retain 100% of their foreign exchange earnings, as opposed to the usual 46%. Due to abuses in the law, an amendment has limited total cumulative countertrade deals under this provision to 10% of Yugoslavia's total export volume.

Trade and Foreign Exchange Controls

Yugoslavian exporters are required to repatriate all foreign exchange earned by exports within 60 days. Citizens residing in the country, who were formerly able to maintain hard currency accounts, were required in 1983 to convert those accounts to Yugoslavian currency. However, Yugoslavian residents living abroad are still able to maintain hard currency account and receive interest in hard currency in Yugoslavia.

ZAMBIA

After obtaining independence in 1964, Zambia went through a boom period as a result of high international copper prices, during which significant efforts were made to develop industrial projects. A decline in copper prices, coupled with increases in costs of essential imports, particularly oil after 1973, as well as closure of its southern border in 1973, conspired to turn the terms of trade rapidly against Zambia. The industrialization program has yet to pay for itself, foreign debt stands at over $5 billion (US), and agriculture has been crippled by a long drought. The country is reliant on foreign aid to meet its debt obligations.

In 1984, a freeze was placed on countertrade transactions as a result of poor deals carried out with Bulgaria and Romania. The government is now highly suspicious of countertrade proposals, although it realizes that countertrade may help in overcoming the nation's chronic shortage of foreign exchange.

The Department of Foreign Trade has established guidelines for a cabinet committee examining countertrade. The guidelines include exclusion of copper and cobalt as countertrade goods, preference for counterpurchases instead of barter, and the establishment of a new export promotion agency. Export promotion is presently handled by government ministries, but with little effectiveness.

If copper, which represents 93% of Zambia's exports, is removed from the list of available goods, foreign suppliers would be hard-pressed to find suitable goods for counterpurchase, as Zambia has very little to offer. Cotton fabric has been used in transactions involving Switzerland and Zaire, and minerals such as lead and zinc may be other alternatives.

A countertrade proposal beneficial to both parties would be given serious consideration, but clearance would have to be obtained from the IMF official working in the Bank of Zambia in charge of monitoring all receipts and payments abroad.

Trade and Foreign Exchange Controls

The Ministry of Commerce controls all external trade through the issuance of import and export licenses. All trade above the level of $500 (US) requires Ministry approval.

Once an import license has been granted, an importer must then obtain a foreign exchange allocation from the Bank of Zambia (the Central Bank, similar in function to the Bank of Canada). Those allocations often tend to lag behind the granting of import licenses in spite of the government policy to keep the two in balance. For certain high-priority items, letters of credit can be issued with offshore guarantees. In the past, goods were imported without specific foreign exchange attached to the imports. However, payments are now put in a pipeline that can take up to five years to be converted into hard currency. Therefore, few exporters would now contemplate shipping goods to Zambia before receiving suitable payment.

Imports are rigidly controlled as part of the government's program of austerity. Export incentives exist and an exporter may retain half of its foreign exchange receipts for import requirements. Payment for exports must be guaranteed by irrevocable letter of credit.

ZIMBABWE

Zimbabwe has the most comprehensive arrangements for countertrade of any African nation. The government has no wish to promote countertrade indiscriminately, but prefers to examine each proposal on an individual basis with regard to the benefits it will have for the economy. Countertrade is regarded as a method to be used only in extreme cases where Zimbabwe cannot otherwise export the goods offered. Faced with a severe shortage of foreign exchange, the government is unwilling to forego any possible earnings from exports, and will even discount its goods in preference to countertrade.

The government plays a major role in countertrade deals through its Interministerial Committee for Special Trading Arrangements, which meets every two weeks. The Committee membership is drawn from the Ministries of Trade and Commerce, Industry and Technology, National Supply, Foreign Affairs, Agriculture, Mines and Finance, Economic Planning and Development, along with members from agencies such as the Zimbabwe Tobacco Association, the Reserve Bank and the Minerals Marketing Corporation, and from the private sector. The Committee was established in 1981 to advise on countertrade policy, formerly the jurisdiction of the Reserve Bank alone.

In 1983, the Committee drew up guidelines for evaluating countertrade proposals and although they have not been officially made public, they illustrate quite clearly the path the Committee will take. The salient point is that the arrangement is one that could not be made for cash and the only way for the domestic product to be exported is through countertrade. The domestic product must be a 'frustrated' one, that is, something difficult to sell or in an area where it is desirable to increase export markets. It is vital that the import be a high priority under government policy, such as raw materials. Countertrade may be permitted to gain entry into otherwise closed foreign markets (for example, nations with foreign exchange shortages). Lastly, the prices of the import and export goods must be "reasonable": this does not rule out discounting.

Goods favoured by Zimbabwe for countertrade include low-carbon ferrochrome, high-nicotine tobacco, and asbestos, none of which are in great international demand. Some consideration is being given to other commodities, such as normal-quality tobacco. Nickel has previously been countertraded. Maize has also been exchanged for wheat from the U.S. and Australia.

Zimbabwe is interested in countertrading for items it considers essential, such as industrial machinery and spare parts, agricultural supplies and industrial raw materials. Long-term contracts for product support are not acceptable. All goods entering the country undergo a quality examination by the Swiss company, SGS.

Buy-back deals in the mining sector are a good possibility; exchanging ore for foreign-supplied mining machinery is quite acceptable, although the matter would have to go before the government's Foreign Investment Committee.

Countertrade deals have been very rare to date and almost all have been carried out on a government-to-government basis. Romania has purchased ferrochrome in exchange for urea, Bulgaria has exchanged maize and wheat for Zimbabwean tobacco, and the German Democratic Republic has supplied industrial raw materials in exchange for ferrochrome and tobacco. The guidelines have been liberally interpreted in some of these cases, as it is a policy of the government to attempt to diversify Zimbabwe's export trade. The East European bloc appears to be the major recipient, in part because of this policy but also due to the fact that foreign exchange shortages prevent cash transactions. An additional factor is that Zimbabwean authorities now stipulate that goods to be bartered must originate in the country with which the transaction is negotiated, and may require a certificate of origin.

In November 1983, Zimbabwe and Tanzania entered into a countertrade agreement that allows each country to open local accounts in each other's countries. Tanzania is interested in the purchase of farm equipment, coal, iron sheeting and seafood, while Zimbabwe wishes to buy sisal products, cloves, clove oil, seafood and iron sheeting.

Firms with a countertrade proposal should approach the Interministerial Committee, with a follow-up letter to the Reserve Bank. Depending on the commodity, consultations should also be made with the appropriate agency, such as the Zimbabwe Tobacco Association.

Trade and Foreign Exchange Controls

Most imports must be licensed and licenses will only be issued against a foreign exchange allocation. The Ministry of Finance heads a government committee which establishes annual foreign exchange allocations based on a priority of needs. Allocations are issued by the Ministry of Trade and Commerce for imports by merchants and by the Ministry of Industry and Energy where a manufacturer is the proposed importer. Import permits are valid for six months, but may be extended. Some agricultural imports require a permit from the Ministry of Agriculture and the Grain Marketing and Cotton Marketing Boards have an import monopoly for some commodities.

Specified exports, including petroleum products, some wood products and wild animals, require a license. Export proceeds must be received within 90 days and sold to authorized dealers. Exports to certain countries must be paid for in advance or by irrevocable letter of credit issued or confirmed prior to export.

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Canada

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