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**COUNTERTRADE IN THE**  
**COMMONWEALTH OF INDEPENDENT STATES:**  
**OBSERVATIONS AND ADVICE**

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**COUNTERTRADE IN THE COMMONWEALTH OF INDEPENDENT STATES;**  
**OBSERVATIONS AND ADVICE**

**FOREWORD**

This publication was prepared as a practical guide to exporters in doing business and countertrade in the former USSR. Its contents are based upon discussions with companies active in the former USSR, a recent visit to this market and research and information gathered from published and unpublished sources.

Any comments, suggestions or additions are welcome. These should be forwarded to M.J. Reshitnyk, Financial and Business Services Division, External Affairs and International Trade Canada, 125 Sussex Drive, Ottawa, Canada K1A 0G2, Tel: (613) 996-1862, Fax: (613) 943-1100.

**INTRODUCTION**

With the availability of hard currency in the Commonwealth of Independent States being scarce, many western exporters are investigating various forms of countertrade as perhaps the only means of financing their exports to the region. Nevertheless be aware that lots of talk and popular press coverage about countertrade misrepresent the situation and disguise the difficulty of successfully concluding a transaction. Many announced transactions never reach the conclusion stage.

The old countertrade adages of it being complicated, difficult to conclude and having a low success ratio hold true in the CIS. The fact that those who talk about it don't do it and those that do it don't talk about it adds to the difficulty of gathering proper information. The normal difficulty associated with successfully concluding a countertrade transaction is further aggravated by the current economic and political turmoil in the region. The situation has been described by some recent business visitors in terms of a new wild west - gold rush fever with rudimentary law and order.

The text has been presented according to 1/ Economic and Political considerations and 2/ Examining the Countertrade Option. This second section is divided into a general overview, finding products, rules and regulations, and transportation.

## 1/ Economic and Political Considerations

### ECONOMIC CONDITIONS

- THE PROBLEMS AND PITFALLS FACING CANADIAN AND WESTERN EXPORTERS IN TRYING TO STRUCTURE AND SUCCESSFULLY CONCLUDE A COUNTERTRADE TRANSACTION IN THE FORMER USSR HAVE MORE TO DO WITH THE OVERALL CONDITIONS FOR DOING BUSINESS IN THE FORMER USSR AND THE CHANGES THAT ARE OCCURRING THERE, THAN ANY HARD FAST RULES AND REGULATIONS FOR DOING COUNTERTRADE. THESE INCLUDE THE CHANGING LEGAL ENVIRONMENT, THE LACK OF BUSINESS EXPERIENCE, POOR INFRASTRUCTURE, DETERIORATING ECONOMIC CONDITIONS AND POLITICAL CHANGES.

#### CHANGING LEGAL ENVIRONMENT:

- FIRSTLY IS THE RAPIDLY CHANGING LEGAL ENVIRONMENT AS THE SYSTEM STRUGGLES TO MODERNIZE AFTER 70 YEARS OF COMMUNISM - GOOD NEWS FOR ANY LAWYERS. A WEEK DOES NOT GO BY WITHOUT NEW LAWS, DECREES AND POLICY ANNOUNCEMENTS AFFECTING RULES FOR TRADE, INVESTMENT AND LOCAL OPERATION. IN MANY CASES, THOSE RESPONSIBLE FOR THEIR ENFORCEMENT ARE UNAWARE OF NEW REGULATIONS OR LACK GUIDELINES FOR ENFORCEMENT.
- THIS CREATES TREMENDOUS UNCERTAINTY AND RISK FOR EXISTING COMPANIES ACTIVE IN THIS MARKET AND ACTS AS A DETERRENT FOR NEW ENTRANTS.
- IN ALL, EXPORT LICENCES, HARD CURRENCY RETENTION QUOTAS, EXPORT TAXES, TAXATION OF FOREIGNERS OPERATING IN THE CIS. FOREIGN INVESTMENT LAWS HAVE RECENTLY UNDERGONE CHANGES AND ADJUSTMENT BY AUTHORITIES.
- ONE RECENT SUCH EXAMPLE WAS THE IMPLEMENTATION OF A \$5 A BARREL EXPORT TAX ON OIL. CANADIAN COMPANIES IN THE OIL AND GAS SECTOR TAKING PAYMENT IN OIL HAVE HAD MANY PROJECTS JEOPARDIZED BECAUSE OF THIS.

#### LACK OF BUSINESS EXPERIENCE:

- SECONDLY IS THE LACK OF BUSINESS EXPERIENCE (AND IN SOME CASES ETHICS) STEMMING FROM THE DE-MONOPOLIZATION OF TRADE AND THE GRANTING OF TRADING RIGHTS TO ALL ENTERPRISES AND FACTORIES.
- UNFORTUNATELY, TRADING EXPERTISE AND EXPERIENCE IN DEALING WITH THE WEST STAYED IN THE HANDS OF THOSE PREVIOUSLY IN

SUCH POSITIONS (WHO BY THE WAY TENDED TO BE COMMUNIST PARTY MEMBERS). IN MOST CASES - UNLESS YOU ARE DEALING WITH THE OLD GUARD (AND MANY MAY PREFER TO DO SO), YOU MAY BE FACED WITH A CLIENT WITH LITTLE OR NO PREVIOUS BUSINESS EXPERIENCE, ACUMEN OR INTEGRITY.

- MANY OF THESE HAVE UNREALISTIC EXPECTATIONS WITH RESPECT TO PRICES THEY WANT FOR THEIR GOODS - WHICH IN MANY CASES DO NOT MEET WESTERN STANDARDS.
- GENERALLY THEY STILL LACK TRUST IN WESTERN PARTNERS. SOME HAVE BEEN KNOWN TO NEGOTIATE AND SIGN AGREEMENTS WITH SEVERAL COMPANIES. MOST CERTAINLY, THEIR INTERPRETATION OF THE WORD EXCLUSIVITY IS DIFFERENT THAN OURS.
- THESE RECENT CHANGES HAVE ALSO CREATED A NEW BREED OF BUSINESSMEN. YOU WILL BE LEFT WITH A FEELING THAT EVERYONE YOU MEET IS AN INTERMEDIARY OR FACILITATOR - HE/SHE HAS CONTACTS OR CAN GET IT FOR YOU. IF YOU DEAL WITH THIS LEVEL EXPECT THE PRICE OF THE "COUNTERTRADE" PRODUCTS TO BE HIGHER.
- THERE IS THE STORY OF TWO RUSSIANS FURIOUSLY NEGOTIATING A DEAL FOR BUTTER IN A LOCAL RESTAURANT. AFTER SEVERAL HOURS OF INTENSIVE NEGOTIATIONS, THEY AGREE ON THE PRICE, THEN ONE RUNS OFF TO FIND THE MONEY AND THE OTHER, THE BUTTER. THIS ANECDOTE WAS RECENTLY TOLD TO US BY A RUSSIAN AND UNFORTUNATELY IS SAD BUT TRUE.
- ANOTHER EXAMPLE OF THE ABUNDANCE OF INTERMEDIARIES DEMONSTRATED DURING A RECENT MISSION OF CANADIAN TRADING HOUSES TO RUSSIA AND UKRAINE. IT WAS ESTIMATED THAT 95% OF THOSE MET WERE SOME FORM OF INTERMEDIARY THAT WAS EMPLOYED OR PART OWNER OF A JOINT-STOCK HOLDING COMPANY - USUALLY A FORMER GOVERNMENT MINISTRY TRYING TO HOLD ON TO ITS CONTROL OVER PLANTS AND DEVELOP A USEFUL ROLE/EMPLOYMENT FOR THEMSELVES.

#### POOR INFRASTRUCTURE:

- A THIRD FACTOR THAT WILL AFFECT DOING BUSINESS IN THE FORMER USSR RELATES TO POOR INFRASTRUCTURE FOR BOTH FOR COMMUNICATIONS AND TRANSPORTATION.
- COMMUNICATION LINKAGES ARE IMPROVING AND WILL MAKE TREMENDOUS STRIDES OVER THE NEXT SIX MONTHS TO A YEAR. THIS WILL IMPROVE SERVICES BUT COSTS WILL STILL BE HIGH. THIS MAKES OPERATIONAL COSTS HIGHER IN THE FORMER USSR IN COMPARISON TO THE COSTS AND RISKS OF BUSINESS IN OTHER MARKETS.

- TRANSPORTATION INTO AND OUT OF RUSSIA AND UKRAINE ARE TROUBLESOME IN TERMS OF EQUIPMENT, EFFICIENCY, COST AND SECURITY. ADDITIONAL COMMENTS ON TRANSPORTATION ARE PROVIDED IN A LATER SECTION.

**DETERIORATING ECONOMIC CONDITIONS:**

- THE FOURTH FACTOR THAT WILL AFFECT BUSINESS OPPORTUNITIES AND CONDITIONS IN THE FORMER USSR ARE THE DETERIORATING INTERNAL ECONOMIC CONDITIONS. THESE INCLUDE:

**INFLATION**

- DESPITE PRESS REPORTS OF 1000% INFLATION, CITIZENS TALK ABOUT 15-20% INFLATION PER MONTH AND OTHERS HAVE REPORTED RISES IN SOME BASIC COMMODITIES OF 2000-3000%. WAGES IN MANY CASES HAVE RISEN ONLY 2-3 TIMES.
- THE EXPECTED RESULT OF THIS WILL BE INCREASING SOCIAL UNREST, HUNGER, POVERTY, CRIME AND CORRUPTION.

**UNEMPLOYMENT**

- WITH MASSIVE INDUSTRIAL RESTRUCTURING EXPECTED PARTICULARLY IN PLANTS FORMERLY PRODUCING MILITARY GOODS, UNEMPLOYMENT CAN BE EXPECTED TO RISE AND ADD TO THE PREVIOUSLY NOTED PROBLEMS.
- BANKRUPTCY LAWS ARE ALSO NOT YET IN PLACE. THIS IS TEMPORARILY DELAYING ADDITIONAL LAY OFFS.

**DECLINING INDUSTRIAL PRODUCTION**

- AS A RESULT OF LESS MILITARY PRODUCTION, OUTMODED MACHINERY, LACK OF SPARE PARTS, RISING INTERNAL OIL PRICES, TRANSPORTATION PROBLEMS AND INTER-REPUBLIC DISPUTES, INDUSTRIAL PRODUCTION IS FALLING IN THE FORMER USSR. SHORTAGES OF COMPONENTS MADE IN SEPARATE PLANTS LOCATED IN OTHER REPUBLICS HAS SHUT DOWN MAIN ASSEMBLY PLANTS IN MANY CASES.
- ONE OF THE DOWNSTREAM RESULTS OF THIS IS THAT THERE IS A SURPLUS OF RAW MATERIALS AND COMMODITIES IN RUSSIA THAT USED TO GO INTO THE INTERNAL MARKET.
- IN SOME CASES THESE ARE BEING DUMPED ON TO WORLD MARKETS FOR HARD CURRENCY WHICH IS DEPRESSING WORLD PRICES AND NEGATIVELY AFFECTING PRODUCTION AND INVESTMENT PLANS OF WESTERN COMPANIES.

- SECTORS AFFECTED INCLUDE: ALUMINUM, NICKEL, GOLD, IRON ORE, URANIUM, PLATINUM, CADMIUM, ZINC AND OIL.

### POLITICAL CHANGES

- THESE FOUR ISSUES OF THE RAPIDLY CHANGING LEGAL ENVIRONMENT, LACK OF BUSINESS EXPERIENCE, POOR INFRASTRUCTURE AND DETERIORATING ECONOMIC CONDITIONS ALL LIE UNDER THE SHADOW OF THE POLITICAL CHANGES THAT HAVE HAPPENED AND WILL CONTINUE INTO THE FORESEEABLE FUTURE. MOST SIGNIFICANTLY IS THE ISSUE THAT BY AND LARGE THE SAME BUREAUCRATS AND COMMUNIST PARTY MEMBERS ARE STILL CONTROLLING GOVERNMENT MINISTRIES AND THROUGH OLD FOREIGN TRADE ORGANIZATIONS AND CONTACTS CONTROL THE BULK OF ECONOMIC ACTIVITY.
- TO QUOTE A RECENT ISSUE OF THE GLOBE AND MAIL "THE HARDLINERS", MANY OF THEM FORMER COMMUNIST PARTY OFFICIALS, STILL WIELD CONSIDERABLE INFLUENCE AND HAVE MANAGED TO STALL REFORM LEGISLATION".
- THE GLOBE ALSO NOTED A LESS OFTEN REPORTED FACT THAT "RUSSIA STATE ENTERPRISE MANAGERS AND FORMER COMMUNISTS MAY HAVE STASHED MORE THAN \$10 BILLION IN FOREIGN BANK ACCOUNTS".
- SOME ESTIMATES IN RUSSIA PUT THIS FIGURE AT CLOSER TO \$50 BILLION - 40% OF WHICH LEFT THE FORMER USSR AT THE TIME OF LAST YEARS COUP.
- SOME EVIDENCE OF THIS INCLUDES REPORTS THAT THE BULK OF CONSUMER PRODUCTS IMPORTS ARE BEING PAID FOR OUT OF THESE ACCOUNTS AND THAT THE SOURCES OF HARD CURRENCY INVESTMENT BY SOVIETS INTO JOINT VENTURES, PARTICULARLY SOME OF THE NEW COMMERCIAL BANKS ARE BEING QUESTIONED.
- DESPITE THIS LARGELY NEGATIVE OUTLOOK, A SMALL ENTREPRENEURIAL CLASS IS DEVELOPING WHICH IS BEING AIDED BY PRIVATIZATION LAWS PARTICULARLY IN RUSSIA. UKRAINE, STILL VERY MUCH IN THE HOLD OF FORMER COMMUNISTS HAS BEEN SLOWER IN ADOPTING PRIVATIZATION LAWS.
- THIS IS A QUICK OVERVIEW OF THE FACTORS AFFECTING BUSINESS OPERATIONS IN THE SOVIET UNION WHICH WILL OF COURSE AFFECT THE SUCCESSFUL STRUCTURING OF COUNTERTRADE TRANSACTIONS.

## 2/ EXAMINING THE COUNTERTRADE OPTION

- THE NEED TO DO COUNTERTRADE BY WESTERN EXPORTERS IS AT THE PRESENT DICTATED BY THE INCONVERTIBILITY OF THE RUBLE IN RUSSIA (THE RUBLE/COUPONS/HRYVNIAS IN UKRAINE) AND THE LACK OF HARD CURRENCY FACED BY MOST IMPORTERS.
- SOME EXCEPTIONS TO THIS INCLUDE THE OIL AND GAS SECTORS AND PRIORITY SECTORS SUCH AS FOOD AND HEALTH RELATED PRODUCTS.
- IDENTIFYING THOSE ORGANIZATIONS WITH OUTSIDE H/C ACCOUNT IS ALSO A STRATEGY BEING PURSUED BY SOME COMPANIES. THIS REQUIRES GOOD CONTACTS AND PATIENCE.
- IN THE MEDIUM TO LONG TERM, THERE ARE SOME SIGN-POSTS WHICH INDICATE THE EVENTUAL DECLINE FOR COUNTERTRADE IN THE FORMER USSR.
- THESE LARGELY HINGE UPON THE CONVERTIBILITY OF THE RUBLE BOTH INTERNALLY, FOR WHICH THERE IS ALREADY SOME SCOPE THROUGH THE NEW COMMERCIAL BANKS AND THE WEEKLY MOSCOW CURRENCY AUCTION, (THIS DOES INVOLVE A LARGE CURRENCY FLUCTUATION RISK) AND EXTERNALLY, FOR WHICH WE HAVE HEARD PROMISES RANGING FROM THIS AUGUST TO LATE 1993.
- UKRAINE'S POSITION IS AT THE PRESENT MORE UNCERTAIN WITH THE PROPOSED INTRODUCTION OF THE NEW CURRENCY HRYVNYA IN JULY AND THE RECENT ESTABLISHMENT OF THE UKRAINIAN STOCK EXCHANGE WHICH WILL ENCOMPASS A HARD CURRENCY AUCTION AND RESULT IN SOME INTERNAL CONVERTIBILITY.
- THE SECOND DECIDING FACTOR WILL BE FULL MEMBERSHIP IN THE IMF AND ITS RESULTING FINANCIAL SUPPORT.
- IN APRIL RUSSIA WAS ACCEPTED INTO THE IMF AND CAN EXPECT SUPPORT ONCE CERTAIN ECONOMIC POLICY CONDITIONS ARE MET.
- IMF MEMBERSHIP AND SUPPORT WILL HAVE A NEGATIVE IMPACT ON COUNTERTRADE AS IMF SUPPORT IS GEARED TO STABILIZING THE RUBLE AND MAKING IT CONVERTIBLE. THE IMF ALSO HAS A POLICY OPPOSING CERTAIN FORMS OF COUNTERTRADE AND IN MANY CASES MAKES THIS A CONDITION OF MEMBERSHIP.
- NONE OF THIS UNFORTUNATELY IS GOING TO HELP YOU TOMORROW IN STRUCTURING A COUNTERTRADE ARRANGEMENT. THE MOST OPTIMISTIC OUTLOOK PLACES THESE CHANGES AT 2-3 YEARS DOWN THE ROAD.
- HOW MUCH COUNTERTRADE IS OCCURRING IN THE CIS IS ALWAYS SUBJECT TO DISCUSSION MUCH OF IT RELATED TO DEFINITION.

- THE BEST PUBLISHED ESTIMATES PLACE COUNTERTRADE AS A FACTOR IN 5% OF WESTERN EXPORTS TO THE USSR IN 1989 AND A FACTOR IN 20% OF IMPORT FINANCING IN THE FORMER USSR IN 1992.
- WITHIN THE GENERAL BUSINESS CONDITIONS PREVIOUSLY DESCRIBED, THREE AREAS REQUIRE SPECIFIC ATTENTION IN SUCCESSFULLY CONCLUDING A COUNTERTRADE-BASED TRANSACTION. THESE RELATE TO PRODUCT, STRUCTURING TRANSACTIONS AND RELATED EXPORT/HARD CURRENCY REGULATIONS AND TRANSPORTATION.

**PRODUCT**

- CERTAINLY, THE MOST DIFFICULT PROBLEM (NOT THAT THERE WON'T BE OTHERS) WILL BE THE IDENTIFICATION OF SUITABLE PRODUCT, IN SUFFICIENT QUANTITY, QUALITY AND AT THE RIGHT PRICE. THIS WILL NECESSARILY INVOLVE ADDITIONAL TIME, FINANCIAL AND HUMAN RESOURCES.
- EXPECT TO BE GIVEN LONG LIST OF POTENTIAL PRODUCTS EITHER PRODUCED BY YOUR CLIENT OR AVAILABLE THROUGH HIS CONTACTS - ACTUAL AVAILABILITY WILL BE SOMETHING ELSE.
- INTERNAL BARTER BETWEEN PLANTS OR ORGANIZATIONS IS AN OPTION IF YOUR LOCAL PARTNER IS EXPERIENCED AND CAN OFFER SOMETHING IN EXCHANGE FOR THE EXPORT PRODUCT.
- COMPETITION WILL LIKELY EXIST FOR THE MOST DESIRABLE EXPORTABLE PRODUCTS FROM OTHER FOREIGN SUPPLIERS. THIS ALONG WITH UNREASONABLE PRICE EXPECTATIONS OF THE SELLER MAY MAKE SOME PRODUCTS MORE EXPENSIVE THAN THEY ARE WORTH.
- ONCE YOU HAVE WHITTLED YOUR LIST DOWN TO A WORKABLE NUMBER IT WILL BE NECESSARY TO DO THE FOLLOWING:

- (i) VERIFY WHO THE TITLEHOLDER TO THE PRODUCTS IS AND THE TRANSFERABILITY OF OWNERSHIP.
- (ii) DETERMINE WHAT QUANTITIES ARE AVAILABLE, WHEN AND WITH WHAT SPECIFICATIONS. IF POTENTIAL EXISTS, YOU SHOULD ESTABLISH A QUALITY PROCEDURE. SOME UPGRADING MAY BE NECESSARY. A JOINT VENTURE MAY BE THE PREFERRED SOLUTION. SAMPLES SHOULD BE PROCURED. IF IT IS A MANUFACTURED PRODUCT ASK FOR AND HOPE TO RECEIVE A PRODUCT BROCHURE AND A TECHNICAL AND SPECIFICATIONS SHEET.

**ANALYSIS**



- (iii) DETERMINE THE LOCATION OF THE PRODUCTS AND WHAT MEANS OF TRANSPORTATION ARE AVAILABLE TO MOVE IT TO POINT OF DEPARTURE. A VISIT TO THE PLANT WILL LIKELY BE NECESSARY AT THIS POINT. (BRING A GIFT FOR THE PLANT MANAGER).
  - (iv) CHECK ON WHAT EXPORT LICENSES MAY BE REQUIRED AND WHAT IF ANY RESTRICTIONS APPLY TO THE EXPORT OF THE PRODUCT IN QUESTION. IDENTIFY WHAT GOVERNMENT APPROVAL IS NECESSARY. THIS COULD BE AT THE REPUBLIC, REGIONAL OR MUNICIPAL LEVEL.
  - (v) DETERMINE WHAT CIF LANDED PRICE IS NECESSARY IN ORDER TO SELL THE GOODS? WORK BACKWARDS TO DETERMINE THE APPROPRIATE BUYING PRICE. IF NECESSARY, BUILD INTO YOUR SELLING PRICE THE COST OF THE SUBSIDY NECESSARY TO SELL THE PRODUCT. BE THANKFUL TO BREAK EVEN ON THIS PORTION OF THE TRANSACTION.
- THE COST OF STRUCTURING DEALS IS VERY HIGH, THEREFORE LOOK FOR DEALS THAT ARE A MINIMUM VALUE OF \$250,000 (US) AND ARE REPEATABLE.
  - DESIRABLE PRODUCTS HAVE BEEN KNOWN TO BE "SOLD" TO SEVERAL BUYERS AT THE SAME TIME. BE CAUTIOUS.
  - IN ADDITION, MANY PLANTS AND ORGANIZATIONS HAVE ALREADY BEEN TIED UP BY FOREIGN COMPANIES, THROUGH JOINT VENTURES AND OTHER ARRANGEMENTS. THIS IS RESTRICTING THE CHOICE OF THE MOST DESIRABLE PRODUCTS MAKING SELECTION MORE DIFFICULT.
  - TO DATE, THE MOST COMMON PRODUCTS TAKEN IN COUNTERTRADE STRUCTURED TRANSACTIONS INCLUDE: OIL AND NATURAL GAS (LARGELY SOLD INTO CENTRAL EUROPE), FERTILIZERS (UREA IS COMMON), TIMBER IN THE FORM OF LOGS, COTTON, SPICES, METALS AND MINERALS (MUCH TO THE DETRIMENT OF WESTERN PRODUCERS AND PRICES), CHEMICALS, SPECIALIZED ALLOYS (FROM PLANTS FORMERLY SUPPLYING THE MILITARY) AND SCRAP METALS FROM VARIOUS PRODUCTION FACILITIES.
  - VARIOUS FORMS OF COMMODITIES ALLOW FOR LARGER TRANSACTIONS IN COMPARISON TO MANUFACTURED PRODUCTS.
  - SOME SPECIALIZED MACHINERY AND MANUFACTURED PRODUCTS ARE BEING EXPORTED TO THE WEST BUT ARE BEING UPGRADED WITH WESTERN CONTROLS AND ELECTRONICS IN MOST CASES.
  - SOME MORE UNIQUE EXAMPLES OF PRODUCTS EXPORTED FROM RUSSIA HAVE INCLUDED OLD UNIFORMS, FURNITURE, BALLET SLIPPERS, COMMUNIST ANTIQUITIES!

- ACCESS TO PRODUCTS IS ENHANCED BY INVESTMENT IN THEIR PRODUCTION I.E. JOINT VENTURES. IF THIS IS YOUR CHOICE PROCEED INCREMENTALLY STARTING WITH A MINIMUM INVESTMENT.

#### USING A TRADING HOUSE

- THE OPTION OF USING A TRADING HOUSE TO ASSIST YOU IN THE WESTERN SALE OF THE "COUNTERTRADE" PRODUCT HAS GREATLY DIMINISHED IN RECENT MONTHS.
- UNDER THE CURRENT UNCERTAIN CONDITIONS MANY LONG STANDING TRADING HOUSES ARE FACED WITH THEIR OWN CONCERNS WITH RESPECT TO TRADING ON THEIR OWN ACCOUNT. AS A RESULT, SOME ARE RELUCTANT TO UNDERTAKE OBLIGATIONS ON BEHALF OF OTHERS.
- IN CASES WHERE THEY WILL AGREE TO ASSIST YOU, THEY WILL PREFER TO WORK ON A RETAINER AND EXPENSES BASIS TO BE DEDUCTED AGAINST FEES OR COMMISSIONS UPON SUCCESSFUL COMPLETION. THEY WILL ASK YOU TO PROVIDE AND CONFIRM A LONG LIST OF INFORMATION ON THE PRODUCTS OFFERED, SPECIFICATIONS, PRICES, ETC BEFORE THEY WILL AGREE TO EXPEND RESOURCES ON YOUR BEHALF.

#### SELECTING CUSTOMERS, STRUCTURING TRANSACTIONS AND RELATED REGULATORY CONCERNS AND COMMENTS

- AS WITH "NORMAL" BUSINESS IN THE FORMER USSR, IN COUNTERTRADE YOU MUST BE PATIENT, PERSISTENT, AND IMAGINATIVE AND EXPECT DELAYS AND UNCERTAINTY. YOU MUST BE COMMITTED TO THE LONG RUN.
- CHOOSE CLIENTS/PARTNERS NOT JUST FOR THEIR NEEDS BUT ALSO THEIR EXPORT EXPERIENCE, TRACK RECORD, INTERNAL CLOUT, CONTACTS, ACCESS TO EXPORTABLE PRODUCTS AND ABILITY TO SECURE AN EXPORT LICENSE. WHEN IN DOUBT, TRY TO VERIFY THEIR BUSINESS CLAIMS. THIS WILL BE DIFFICULT.
- EXAMINE JOINT VENTURE POSSIBILITIES AS AN OPTION TO COUNTERTRADE. EXPORTS GENERATED BY JOINT VENTURE COMPANIES ARE SUBJECT TO MORE LIBERAL REGULATIONS.
- BE PREPARED TO ASSIST YOUR CUSTOMER IN GETTING THEIR PRODUCT OUT OF THE COUNTRY. THIS MAY INCLUDE ASSISTANCE IN GETTING AN EXPORT LICENSE, ARRANGING TRANSPORTATION, ACCOMPANYING THE SHIPMENT AND INSURING IT BOARDS THE OUTGOING VESSEL. SOME FORMS OF FACILITATION MAY BE REQUIRED.
- IN THE COURSE OF STRUCTURING YOUR TRANSACTION BE CAREFUL WHEN INQUIRING AND MAKING ARRANGEMENTS SO AS NOT TO DIVULGE

TOO MUCH INFORMATION. THIS INFORMATION MAY BE VALUABLE TO YOUR COMPETITORS.

- WORK ON THE BASIS OF ADVANCED COUNTERPURCHASE - THAT IS EXPORTING AND SELLING THE CUSTOMERS PRODUCTS AND RETAINING THE "ALLOWED" PERCENTAGE OF HARD CURRENCY IN AN EXPERIENCED WESTERN BANK. THE ALLOWED PERCENTAGE VARIES BY PRODUCT, REGION AND REPUBLIC AND SEEM TO CHANGE EVERY FEW MONTHS. RECENT FIGURES FOR WESTERN RUSSIA ARE QUOTED IN THE RANGE OF 50% FOR UNRESTRICTED PRODUCTS. CALCULATE THE AMOUNT OF HARD CURRENCY THAT CAN BE RETAINED BY YOUR CUSTOMER NET OF TAXES, HARD CURRENCY RETENTION QUOTAS, TARIFFS AND EXPORT LICENSES PRIOR TO THE TRANSACTION IN ORDER TO DETERMINE THE NET HARD CURRENCY AVAILABLE TO PURCHASE YOUR PRODUCT.
- SHIP YOUR PRODUCT ONLY AGAINST MONEY FROM THE SALE OF PRODUCT (OR A CONFIRMED IRREVOCABLE LETTER OF CREDIT DRAW UPON A REPUTABLE WESTERN BANK).
- SOME PURE BARTER DEALS IN THE FORM OF PARALLEL TRANSACTIONS INVOLVING THE EXCHANGE OF PRODUCT FOR PRODUCT ARE OCCURRING. THIS GETS AROUND THE HARD CURRENCY RETENTION QUOTAS BUT BORDERS ON THE "GREY" ZONE OF LEGALITY.
- BE AWARE AND CAUTIOUS OF CORRUPTION AND BUSINESS MALPRACTICE.
- IN RUSSIA, EXPORT LICENSES ARE STILL CURRENTLY REQUIRED FOR MOST PRODUCTS AND NORMALLY ONLY FOR "SURPLUS" PRODUCTION.
- IN SOME CASES LICENSES CAN BE OBTAINED EITHER AT AUCTIONS AT THE NUMEROUS COMMODITY EXCHANGES, PURCHASED OR OTHERWISE ACQUIRED. BE AWARE THAT EXPORT LICENSE REGULATIONS HAVE BEEN CHANGING ON A FREQUENT BASIS.

#### UKRAINE

- ALL PREVIOUS RESTRICTIONS ON BARTER OPERATIONS HAVE BEEN RECENTLY LIFTED. THIS HAS BEEN REPLACED WITH DUTIES ON EXPORTS.
- EXPORT LICENSES ARE NOW REQUIRED ON ABOUT 200 COMMODITIES - UNLIKE RUSSIA EXPORT LICENSES CANNOT YET BE BOUGHT AT AUCTIONS.
- JOINT VENTURES AND FULLY-OWNED SUBSIDIARIES ARE NOT SUBJECT TO EXPORT-IMPORT LICENSING WHEN EXPORTING GOODS AND SERVICES OF THEIR OWN PRODUCTION OR IMPORTING THEM FOR THEIR OWN NEEDS.
- LOCAL CURRENCY INVESTMENT INCOME FROM JOINT VENTURES CAN BE USED TO BUY FOREIGN EXCHANGE IN THE DOMESTIC MARKET AND ALSO

FOR THE PURCHASE OF GOODS FOR EXPORTING FREE OF LICENSING REQUIREMENTS.

- o HARD CURRENCY RETENTION QUOTAS - (NOT APPLIED TO JOINT VENTURES WITH GREATER THAN 30% FOREIGN INVESTMENT) RANGE FROM 15% ON AGRO-FOOD AND LIVESTOCK PRODUCTS TO 70% ON ENERGY AND PRECIOUS METALS.

### IN GENERAL

- EXAMINE THE OPTION OF ESTABLISHING A JOINT VENTURE WITH YOUR CUSTOMER FOR THE PURPOSE OF EXPORTING AND IMPORTING THE PRODUCTS IN QUESTION AS LICENSING REQUIREMENTS, TARIFF RATES AND H/C RETENTION QUOTAS ARE MUCH MORE FAVOURABLE.
- IMPRECISE RULES AND REGULATIONS HAVE IN THE PAST ALLOWED BUYERS TO CIRCUMVENT SOME OF THE MORE STRINGENT RESTRICTIONS AND REGULATIONS APPLYING TO NORMAL EXPORTS AND IMPORTS.
- IN ORDER TO DO ANY SUBSTANTIAL BUSINESS, PERMANENT PRESENCE IN THE FORM OF PEOPLE AND AN OFFICE IS SUGGESTED. THIS IS SO YOU CAN NOT ONLY IDENTIFY OPPORTUNITIES BUT ALSO STAY IN REGULAR PERSONAL CONTACT WITH YOUR CUSTOMERS AND BE AWARE OF ANY ATTEMPTS BY COMPETITORS TO WIN THEM OVER. TO SET UP AN OFFICE ACCORDING TO WESTERN STANDARDS EXPECT TO PAY UP TO \$200,000 (US) PER YEAR. UP TO NOW, THREE TO FOUR YEARS HAS BEEN NECESSARY BEFORE ANY REAL PAYBACK ON THIS INVESTMENT HAS BEEN REALIZED.
- LOWER PROFILE OFFICES USING A LOCAL AGENT OPERATING OUT OF HIS/HER APARTMENT CAN BE ESTABLISHED FOR ANYWHERE FROM \$200 TO \$500/MONTH AND UPWARD. FORMER MINISTRY OFFICIALS WITH GOOD CONTACTS ARE BEST IN THIS REGARD.
- CAUTION AND CLOSE MONITORING OF THE ACTIVITIES OF LOCAL AGENTS IS ADVISED.

### TRANSPORTATION

GIVEN THE CURRENT CONDITIONS IN THE CIS, TRANSPORTATION IS A KEY AND PROBLEMATIC AREA IN BOTH THE DELIVERY OF YOUR EXPORT PRODUCT AND THE PURCHASE OF THE "COUNTERTRADE" PRODUCT.

- WHILE SHIPPING IS AVAILABLE TO ST. PETERSBURG, THE BALTICS AND THE BLACK SEA, THE PRIORITY GIVEN TO BERTHING OF SHIPS AND THEIR DISCHARGING IS PROBLEMATIC AND SUBJECT TO ADDITIONAL "NEGOTIATION". COMPANIES HAVE COMMENTED THAT ODESSA IS PARTICULARLY BAD IN THIS REGARD.
- IN-LAND TRANSPORTATION ARRANGEMENTS FROM PORTS CAN BE MADE AND PAID FOR IN RUBLES. HOWEVER, THE ARRIVAL OF ARRANGED TRUCKS OR RAIL CARS IS NOT GUARANTEED. TO BE ASSURED OF ARRIVAL, GOOD CONTACTS AND PAYMENT IN US DOLLARS IS RECOMMENDED.
- SECURITY OF YOUR SHIPMENT, EITHER INGOING OR OUTGOING IS PARAMOUNT. THEFT IS COMMON PARTICULARLY FOR VALUABLE SHIPMENTS (ELECTRONICS, FOOD PRODUCTS AND PHARMACEUTICALS).

SEVERAL COMPANIES HAVE MENTIONED THAT ARRANGING FOR ARMED ESCORTS FOR VALUABLE SHIPMENTS IS ADVISABLE. ONE COMPANY WENT SO FAR AS TO ALSO PURCHASE THEIR OWN SHIPPING CONTAINERS AND WELD THEM SHUT. UNFORTUNATELY, CUTTING TORCHES ARE ALSO AVAILABLE IN THE CIS.

- SEEK THE ADVICE AND ASSISTANCE OF A WESTERN TRANSPORTATION COMPANY OR FREIGHT FORWARDER WITH AN OFFICE AND THEIR OWN PEOPLE IN MOSCOW SO THAT YOU CAN ENJOY RESTFUL SLEEP AT NIGHT (MAYBE). THEY SHOULD HAVE INTIMATE KNOWLEDGE OF PORTS, LOADING RATES, STORAGE FACILITIES, ANY LOADING BACKLOGS AND THE OFFICIALS RESPONSIBLE FOR ALL OF THESE.
- DESPITE CLAIMS FROM RUSSIAN TRANSPORTATION COMPANIES CONTAINERS DO GO MISSING AND DELAYS IN INTERMODAL CONNECTIONS ARE THE NORM.
- BREAK BULK SHIPMENT BY OCEAN FREIGHT IS NOT RECOMMENDED AND IS AN INVITATION TO PILFERAGE AND THEFT - ONE TRADER RECENTLY SHIPPED 50 CARS ONLY TO HAVE TO BUY THE BATTERIES BACK ON THE WHARF.
- TRUCKING ARRANGEMENTS CAN BE MADE VIA ANTWERP.
- LACK OF SHIPPING MATERIALS, CONTAINERS AND STORAGE FACILITIES IS ALSO PROBLEMATIC - ONE COMPANY RECENTLY PURCHASED AN ELECTRON MICROSCOPE WHICH WAS CRATED IN A REGULAR WOODEN BOX AND LEFT ON A DOCK FOR A MONTH. IT ARRIVED RUSTED AND THE COMPANY WAS FORCED TO PURCHASE ANOTHER UNIT AND AIR FREIGHT IN ORDER TO MAINTAIN ITS REPUTATION WITH THE BUYER.
- WESTERN SHIPPING COMPANIES ARE LOATH TO SEND THEIR OWN CONTAINERS INTO THE CIS AS THEY ARE DIFFICULT TO RECOVER, PARTICULARLY REEFER UNITS AS REFRIGERATION IS IN SHORT SUPPLY IN THE FORMER USSR. THIS IS FORCING COMPANIES TO CONSIDER BUYING THEIR OWN USED CONTAINERS TO LEAVE WITH THE CLIENT FOR STORAGE, ETC. USED 20 FT CONTAINERS ARE CURRENTLY AVAILABLE FOR \$2,200 AND 40 FT FOR \$3,000.00.

### SUMMARY

PURCHASING AND RESELLING PRODUCTS FROM THE CIS AS A MEANS OF SECURING PAYMENT FOR YOUR EXPORTS IS AN OPTION BEING CONSIDERED BY MANY WESTERN EXPORTERS. AS TIME PROGRESSES THIS PURER FORM OF STRAIGHT GOODS FOR GOODS PAYMENT MAY BECOME LESS COMMON AS COMPANIES WILL PREFER TO ESTABLISH LONGER TERM ARRANGEMENTS IN THE FORM OF JOINT VENTURES AND INVESTMENT. BUYBACK ARRANGEMENTS TO MARKET THE PRODUCTS OF SUCH JOINT VENTURES AND THUS REPATRIATE PROFITS AND INVESTMENT WILL BECOME MORE COMMON.

IN THE INTERIM, THE CURRENT ECONOMIC AND POLITICAL TURMOIL IN THE FORMER USSR WILL REQUIRE ADDITIONAL CAUTION AND ATTENTION TO DETAILS ON THE PART OF CANADIAN EXPORTERS IN ORDER TO ASSURE SUCCESSFUL CONCLUSION OF TRANSACTIONS.

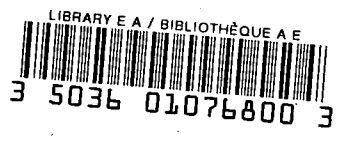
IRRESPECTIVE OF THE STRATEGY SELECTED FOR DOING BUSINESS IN THE CIS THE FOLLOWING ADVICE SHOULD BE KEPT IN MIND:

- YOU MUST BE COMMITTED TO THE LONG RUN AND EXPECT THAT TRANSACTIONS WILL TAKE LONGER TO COMPLETE AND REQUIRE SIGNIFICANT INVESTMENT IN TERMS OF BOTH PERSONNEL AND FINANCIAL RESOURCES.
- BE PATIENT, PERSISTENT, SHOW IMAGINATION AND EXPECT DELAYS AND UNCERTAINTY.
- PERMANENT PRESENCE (REPRESENTATIVE) IS ALMOST A PREREQUISITE. A SUBSTANTIAL INVESTMENT IN FORM OF AN OFFICE OR JOINT VENTURE (WITH YOUR OWN WESTERN EMPLOYEE ON THE SPOT) IS ADVISABLE IF A COMMITMENT TO THE MARKET HAS BEEN MADE.
- CHOOSE YOUR CUSTOMERS WELL NOT JUST FOR THEIR NEEDS BUT ALSO EXPORT EXPERIENCE, INTERNAL CLOUT AND CONTACTS, ACCESS TO PRODUCTS AND ABILITY TO SECURE AN EXPORT LICENSE. PROCEED INCREMENTALLY IN TERMS OF EFFORT AND INVESTMENT SO AS TO ALLOW TIME FOR THE CLIENT TO DEMONSTRATE THEIR COMMITMENT, INTEGRITY AND CAPABILITY.
- FOR EASE OF SALE, CHOOSE COMMODITIES OVER MANUFACTURED PRODUCTS IN THE SELECTION OF "COUNTERTRADE" PRODUCTS WHENEVER POSSIBLE. THIS IS BECOMING MORE INCREASINGLY DIFFICULT TO DO AS PRODUCERS AND SUPPLIERS ARE BEING TIED UP BY COMPETITORS AND MAY REQUIRE SOME FORM OF JOINT VENTURE OR INVESTMENT IN THE PRODUCTION (EQUIPMENT, TECHNOLOGY, TRAINING) IN ORDER TO GUARANTEE PRODUCT QUALITY, SUPPLY AND COMMITMENT.

- **PAY PARTICULAR ATTENTION TO THE TRANSPORTATION ARRANGEMENTS ON BOTH AN INGOING AND OUTGOING BASIS. EXPECT TO DEVOTE ADDITIONAL TIME AND RESOURCES TO INSURE SUCCESSFUL MOVEMENT OF PRODUCTS. MURPHY'S LAW WILL PREVAIL.**



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