Chapter 3 FORMS OF COUNTERTRADE

3.1. Definition and Scope of Countertrade

There is no general agreement on the definition of countertrade. Some favour a fairly narrow definition of the subject including only such practices as barter-style deals and counterpurchase whereas others include a broader range of trading arrangements including bilateral governmental trade agreements.

In these guidelines we adopt a similar position to that presented in the report by Jones (1984) entitled "North/South Countertrade", an extract from which is reproduced below.

> "... the term "countertrade" is used in this report in a generic sense to refer to forms of trade involving an element of reciprocity, i.e. if I buy from you, you must buy something back from me. This is a deliberately simple and broad definition. Countertrade is not a neat, separate, easily definable entity. It is instead an ill-assorted collection of trading practices whose only connection is that they involve reciprocal trade.
>
> A common misconception should be cleared up at this stage. Countertrade is not trade without money, at least, it is only that in a few cases of classic barter; in all other cases money is used. The important point about countertrade is that it aims to equalise, or partially balance, foreign exchange expenditures."

A further complicating factor is that the terminology of countertrade has become very confused, with many different definitions being offered for the same word. Compensation, for example, has several different meanings according to the user of the term. An appendix on terminology is given (Appendix 1) in an attempt to clear up some of the confusion.

3.2. Countertrade by Geographical Region

From a developing country point of view, countertrade partners can be divided into three broad geographical groups.

(i) Trading partners in OECD countries. Occasionally the partner may be a government or parastatal organisation but more usually will be a private manufacturing company or trading house.

(ii) Trading partners in Eastern bloc countries. For many years the governments of most Eastern bloc countries have favoured a policy of signing bilateral trade agreements with particular developing countries. The actual trading arrangements are usually placed in the hands of Foreign Trade Organisations (FTOs). As well as long term agreements, most Eastern bloc countries become involved in ad hoc deals with developing countries.

(iii) Trading partners in other developing countries. This is the so-called "South-South Countertrade" and is probably the most rapidly expanding area of countertrade at the present time and has the greatest potential for future increase. Agreements are very often signed between governments, with the trading arrangements being organised through parastatal organisations, although some parastatal organisations also have the authority to initiate and pursue their own deals. The private sector is involved in some developing countries. A variant of South-South trade, which is sometimes considered to fall within the "family" of countertrade arrangements, is regional clearing agreements (refer to section 3.3.3(c).

Of course, it should be pointed out that countertrade is not necessarily limited to two parties and there are many cases of triangular or multi-country deals. Reference to a triangular countertrade (escrow) deal is made in section 3.4.

There are very few guidelines about which countries to choose as countertrade partners. In some cases the type of countertrade system operated will determine the partners; for example, a counterpurchase system of countertrade will probably result in many partners amongst OECD countries. A preference for long-term government to government agreements will result in partners amongst some Eastern bloc and developing countries but not OECD countries which, as a group, do not favour such agreements. The barter style of countertrade offers some additional scope for choosing partners. There are some countries which have adopted the position of only countertrading with countries which are lacking in foreign exchange. In other words, countertrade is allowed with some Eastern bloc and developing countries but not with OECD and certain other countries which are viewed as purchasers who should only be allowed to pay for export products in foreign exchange.

3.3. Types of Countertrade

A large number of books and reports have been produced in recent years, most of which contain a classification of the various types of countertrade. In these guidelines it is our intention to concentrate attention on those types of countertrade which are of primary interest to the target group of countries. Therefore, little attention is paid to variants of countertrade such as switch trading, with which the target group are relatively little involved, and much more attention is paid to counterpurchase, escrow deals and so on.

However, it should be remembered that no categorisation is complete and that there is a lot of truth in the countertrade conference cliché which says "there are as many types of countertrade as there are deals". This is one of the reasons why these guidelines make no attempt to provide blueprints for countertrade transactions because nearly all deals have their own particular characteristics. Having said that, there are broad types of countertrade which can be distinguished and which are presented in the following sub-sections, but the reader should be aware that the categories are not watertight and that there is often overlap between types.

As an aid to understanding for the reader, it may be helpful to consider a sub-categorisation of countertrade types into those that relate primarily to trading of goods (counterpurchase, barter-style countertrade, bilateral agreements) and those that also often involve investment, manufacture, technology transfer, capital movement, etc. (buy-back, offset, goods for debt).

3.3.1. Counterpurchase

Counterpurchase is a very common form of countertrade. It is sometimes known as parallel trade. It involves a developing country agreeing to purchase an import on condition that the trading partner will undertake an obligation to take out export products from the developing country over time.

The following generalisations can be made about counterpurchase.

i. The timing sequence for counterpurchase is that the developing country usually imports first and exports second. The export period may extend over a number of years.

ii. There will usually be two (or more) contracts.

iii. The method is most appropriate for creditworthy countries or countries with foreign exchange reserves because the imports are normally financed by conventional means, such as credits with appropriate insurance cover. The exports from the developing country do not actually finance the imports, they simply help to balance the expenditure on the import at a later date.

iv. Many developing countries give permission for counter-purchase obligations to be assigned to third parties. Some countries, such as Indonesia, have standard letters of assignment. Often, the obligation to take out export products from the developing country will be taken over by a trading company. The actual products to be exported will be agreed either in advance or at a later date with the government of the developing country.

v. A discount for the final buyer is usually required on the price of the export product in order to provide a purchasing incentive. The same holds true for most countertrade exports.

vi. The trading company or other assignee will be paid by the countertrade partner an amount equal to the discount (often called disagio) plus other agreed expenses.

vii. The extra counterpurchase costs incurred by the countertrade partner are often added to his price, i.e. the developing country pays the extra costs.

viii. The counterpurchase obligation may be equal to the value of the import contract, in other words a 100 per cent obligation, but it may also be any agreed percentage below, or even above, 100 per cent.

ix. A system of penalties for non-performance of obligations may exist, sometimes valued at only a few percent of outstanding contract value or, possibly, as high as 50 per cent.

Counterpurchase systems have been introduced by a number of developing countries, particularly in the Far East. An example of a mandatory counterpurchase system is provided by Indonesia, which is profiled in Appendix 5. Short profiles are also provided of two other countries, Malaysia and India, which have introduced non-mandatory schemes. The essential difference between these two and the Indonesian model is that they include a countertrade clause in tender documents for major government procurements from overseas suppliers but the offering of countertrade is optional rather than mandatory. Therefore, in Malaysia and India, a foreign supplier may offer countertrade in order to try to enhance the chances of a successful bid, but the governments retain the right to choose a bid without countertrade if the overall cost and terms are preferable.

3.3.2. Barter-Style Countertrade

Barter is used in a number of ways in countertrade circles. In its most limited sense it refers to what is sometimes called "pure" or "classical" barter, i.e. where goods are exchanged without any use of money. Such deals are rare in current international trade, and where they do exist are invariably organised on a government to government basis. Recent examples of barter include the USA/Jamaica deals involving bauxite for dairy products and a New Zealand lamb for Iranian oil transaction. The problem involved in organising classical barter deals is the identification of double coincidence of wants.

In its widest sense, barter is sometimes used as a generic term in the same way that countertrade is used in these guidelines. Somewhere in between the limited and widest uses of the term, barter is used to refer to the type of countertrade where an export from a developing country finances a subsequent import. There is no generally accepted or recognised term, and hence "barter-style" countertrade is used in these guidelines. An alternative term which is sometimes used is advance compensation.

A developing country which has exhausted its foreign exchange reserves and does not have access to credit will not normally be in a position to engage in the counterpurchase type of countertrade (unless the Western exporter is prepared to ship goods without guarantees or some form of unconventional finance is available). An alternative method is for the developing country to export its products first, so that the proceeds of the sale pay for the products imported into the developing country. The products from the industrialised country are not shipped until the money is available to pay for them. It is common for an escrow account to be opened with a bank, to be used exclusively for the inflows and outflows associated with the particular transaction.

A short profile is given in Appendix 5 of the countertrade system operated by Zimbabwe and an explanatory example is given in Section 3.4. of the stages in the execution of a deal based on using an escrow account.

There are many variants of barter-style countertrade, most of which involve the developing country exporting first, but there are occasions when a reverse order is possible if the foreign partner is prepared to take the country risk. For example, a well known European trading house operates a system in a few selected African countries which it refers to as "short-term trade related self-balancing credits". In this case the trading house organises and finances the shipment of an urgently required import and is effectively supplying credit to the country until such time as the "balancing" export is shipped. The raison d'etre for such deals is usually that the African country faces the prospect of some form of economic/social/political turmoil if desperately needed imports do not arrive. Since the receiving countries are "off-cover", the operation of this type of deal does require that the foreign partner takes a substantial risk and such transactions are not particularly common.

A somewhat similar system is operated by another trading house, which offers a scheme whereby the African country enters an undertaking that the revenues earned from the future export of a traditional export commodity to a traditional customer are "promised" to the trading house in payment for an earlier supply of agreed imports. This is another example of an unconventional form of trade credit.

3.3.3. Bilateral Agreements Between Governments, Parastatal Organisations and Private Companies

This category covers a very wide range of sub-categories which, for the sake of simplicity, are divided into three groups, although the borderlines are not clear cut. All involve medium term or long term arrangements.

(a) Government to government agreements
(b) STAs and framework agreements
(c) Regional clearing agreements.

(a) Government to Government Agreements

Some government to government agreements may be nothing more than vague declarations of intent to increase trade between two countries. These would normally be considered to fall outside the scope of countertrade. However, there are also more formal and structured arrangements which may be considered to fall within the orbit of countertrade, such as those involving long-term trade agreements with Eastern bloc countries. As an example, India has several long-term trade and payments agreements with various Eastern bloc countries which usually run for a period of five years. These agreements include a list of products to be traded on both sides and target values. Within these long-term agreements, annual trade protocols are negotiated which specify actual products and quantities, with prices being finalised at intervals throughout the year on the basis of prevailing world market prices. The agreed mechanism for controlling and monitoring the flow of reciprocal trade is a clearing account, which in the case of some Indian agreements is denominated in Rupees. The actual trading responsibility is passed over to parastatal trading organisations in each country.

A common feature of clearing accounts, many of which for other countries are denominated in US dollars, is the introduction of swing limits to reduce the risks of one country exporting a much greater value of goods than the other. It is sometimes required that imbalances, at specified intervals, must be settled in foreign exchange.

These arrangements, in some long-term bilateral agreements, give rise to the practice known as switch trading. Switch transactions are quite possibly the most complicated of the countertrade family of trading arrangements. The system operates within the context of bilateral agreements. Such agreements are often out of balance and it is these imbalances which are the switch specialists' stock in trade. The manipulations of clearing credits and debts, and the trading of the associated goods, often involve several countries in a web of complex arrangements. Very often a switch deal may be included as one component within a broader countertrade transaction. Substantial discounts, e.g. in excess of 10 per cent, may be involved in the switch or conversion process, including 'a part as the switcher's remuneration. Three major variations on the theme can be distinguished.

i. Developing country X has exported goods to Eastern bloc country Y under the terms of a bilateral agreement, but Y has not supplied goods to X. A switch trader may be able to obtain access to Y's debt expressed in the clearing currency and use the funds for a third country's exports to X. In this way, a developing country such as Brazil which regularly runs large surpluses in its exports to Eastern bloc countries may obtain imports from third countries, e.g. in Western Europe, instead of obtaining goods supplied directly by the Eastern bloc countries. Another way of expressing the same idea is that switch trading provides a means whereby Western exporters may obtain import licences into a country such as Brazil.

ii. A rather underhand form of switch, which is not officially allowed in the terms of most bilateral agreements, occurs when one party to the agreement resells products obtained from the partner country. For example, in the past certain Eastern bloc countries have resold Indian cotton and Bangladesh tea to third countries.

iii. A purely financial switch may be organised whereby bilateral clearing units are converted at a discount into hard currency, without any movement of goods as part of the transaction.

Switch trading, however, is unlikely to be a prominent feature in the countertrade activities of the target group of countries for these guidelines, although many of them do have a few relatively small long-term agreements with either Eastern bloc countries or other developing countries.

There are many pros and cons of government to government agreements. The greatest plus factor, of course, is that these agreements allow trade to take place between countries lacking in foreign exchange, where such trade might not take place at all without reciprocal agreements. It is also argued that long-term arrangements allow sensible planning of export production and import absorption in a way that ad hoc and short-term deals do not.

On the negative side, it has often been argued that the developing countries which benefit most from long-term arrangements with Eastern bloc states are those, usually large, countries which also have a political dimension to the relationship and that smaller, less politically significant countries receive fewer advantages. It is sometimes argued that long-term trade agreements reduce trading flexibility, involve dangers for developing countries of releasing their main exports in return for second grade goods (instead of foreign exchange) and have the added danger that exports may be resold into commercial markets.

Certainly there would appear to be no advantages for developing countries in releasing their main export products - which they could sell for foreign exchange - within such trade agreements. Zambia, for example, learned this lesson in the 1970s and now no longer allows copper to be traded as part of bilateral deals. A short profile of Zambia's bilateral agreement with Romania is presented in section 3.4, which shows that the financial mechanism is a "barter account" held in each country and also highlights some recent problems experienced with the deal.

It should also be emphasised that government to government agreements are by no means restricted to countertrade arrangements with Eastern bloc countries but are also prevalent in South/South countertrade. In fact, a considerable proportion of the rapidly growing number of South/South deals may be described as government to government deals, although not necessarily involving any form of clearing mechanism.

(b) STAs and Framework Agreements

There are numerous types of long-term or medium-term agreement, with names such as State Trading Agreement (STA), framework agreement, basket agreement and so on. In some cases they function along similar lines to government to government agreements, for example, with central accounts and swing limits, but there may also be significant differences. The parties to the agreements may be governments, parastatal trading organisations, private trading houses and, occasionally, banks or financial institutions.

Some developing countries have embraced this method of countertrading on a fairly large scale. Pakistan, for example, has a few long-standing STAs with organisations such as Sukab of Sweden and Kemira of Finland, as well as four more STAs, reputed to be valued at $100 million each, which were signed with four organisations in 1986 (MG Services, Mitsubishi, Prudential Bache Trade Finance and Sucre Denrees).

An important distinction should be made between agreements which are strictly bilateral, for example, between two parastatal trading organisations which only source products from within their own countries, and agreements with private organisations, such as those named as the STA partners of Pakistan, which procure products from any permitted origin. These latter types of agreement, which are sometimes called private clearing agreements and are usually organised by large Western trading houses, are becoming increasingly prevalent. An example of such a contract, organised by the trading house André, is presented in Appendix 2. We may see such methods becoming increasingly popular in indebted, off-cover countries in the future because, in effect, they offer the facilities of a line of credit. It is usual for such agreements to be renewable on a yearly basis.

(c) Regional Clearing Agreements

Regional trade agreements, with payments organised through a central clearing house, are not strictly a form of countertrade but are, in broad terms, concerned with reciprocal trade. Various attempts have been made at organising such arrangements in the Caribbean and other parts of the world with varying degrees of success. A fairly new organisation, the Preferential Trade Area (PTA), is now operating in a part of Africa and this is briefly profiled in section 3.4.

3.3.4. Buy-Back

In conceptual terms, the "buy-back" form of countertrade is probably the easiest to visualise, although it may become complicated to implement because of the long-term nature of the transaction. Typically, it involves a foreign company providing equipment, or more usually a complete turnkey project, to a developing country, and the company being paid back in resultant product from the project over a period of years.

One developing country which has concluded more buy-back deals than any other is China, particularly with Japan, West Germany and the USA. Suppliers of specialist equipment have been paid back in a variety of Chinese resultant products, including canned asparagus, talcum powder, clothing and coal.

The advantages of the buy-back form of countertrade for developing countries relate to the acquisition of plant, equipment, technology and know-how. It may also provide an opportunity for developing new export products and markets.

The buy-back model is attractive in its simplicity, but a number of practical problems for foreign partners have to be overcome in real world situations. First and foremost is the problem of finance. The interval between shipment of the machinery and payment may be a number of years and conventional forms of financing are often not available. Risks are obviously involved that the project will not be successfully concluded. Further problems, particularly in the manufacturing sector, involve the dangers of establishing operations whose resultant products will compete in world markets with the supplying companies' own exports.

From previous experience it is known that various difficulties may arise during the buy-back period which may cause problems for all the parties concerned. It is quite possible for various economic, financial and political factors to change during the life of a deal which may necessitate special action to change the terms of the buy-back arrangement. Some of the problems are listed below.

- Delays in the construction of the plant may lead to re-negotiation of the credit terms because the repayment schedule is delayed.

- Changes in market values of the buy-back products or changes in exchange rates affecting the price of buy-back products may lead to a change in export earnings which may affect the terms of the loan agreement unless consideration of this has been incorporated into the original document.

- Market changes within domestic or export markets may affect the volume of buy-back product sold, again altering the repayment schedule, particularly if export sales are reduced because of high domestic demand, a fall in output or a weakened export market.

- Additional investment may be required to improve or modify the production process in order to maintain competitiveness. This too can lead to changes in the agreement terms.

It is true to say that many complications can arise during the course of a buy-back arrangement. They often take a few years to negotiate and the fulfilment period can be very long, depending on the terms of the agreement. As a result, careful and continual negotiation and re-negotiation are often necessary.

From the point of view of developing countries, although buy-back might offer benefits along the lines of technology transfer and assured export markets, it may nevertheless rank below alternative methods of organising capital investment such as aid financing, the establishment of subsidiaries by overseas companies or joint ventures. Nevertheless, buy-back is another option to be considered and the apparent recent willingness of the World Bank and other aid agencies to support projects with buy-back components may give a boost to this form of countertrade.

3.3.5. Offset

The word "offset" has a variety of meanings in countertrade circles, but is used in these guidelines to refer solely to countertrade concerned with very high value exports, usually involving either civil/military aircraft or other military equipment. The Western companies which face demands for offset are mostly the very large multinational corporations (MNCs) involved in the aerospace and defence industries, particularly American corporations such as Lockheed, Boeing, etc. and European companies such as British Aerospace and Aerospatiale.

The definition of "offset" can become quite complicated. A US Department of the Treasury report (1983) divides "offset" into the following categories: coproduction, direct licensed production, subcontractor production, overseas investment, technology transfer, and other countertrade. Two basic types can be distinguished.

(i) Direct Offset occurs where there is an arrangement whereby components to be used by the Western exporter are to be produced within the developing country. In addition to agreeing to purchase the components, the Western exporter may also provide investment and technical assistance as part of the deal. The actual goods procured need not be components as such, but any products to be used in-house by the exporting company.

(ii) Indirect Offset occurs where the Western exporter agrees to take out unrelated products from the developing country. For example, an aeroplane manufacturer may take out tropical products over a period of years. In a number of cases, the Western exporter's obligation will be expressed in terms of "best efforts". There is often a close similarity between indirect offset and counterpurchase.

The offset form of countertrade is mostly engaged in by industrialised countries. Belgium, for example, has a substantial offset programme with various American suppliers of military equipment. Offset also features in the countertrade activities of some Newly Industrialised Countries (NICs). However, it is not an appropriate form of countertrade for many developing countries which either are not substantial purchasers of civil aircraft and military equipment or which procure these items through various aid-financed avenues. Very few countries in the target group have the potential for extensive use of direct offset methods of countertrade and, therefore, this receives little attention in these guidelines. To the extent that potential exists for indirect offset, the activity is closely related to counterpurchase, which is fully described.

3.3.6. Goods for Debt

Various forms of reciprocal arrangement are possible involving the repayment of commercial debt. The mechanics of such deals may become very complicated but the essential element is that the indebted developing country offers goods instead of payment in foreign exchange.

Such deals are relatively uncommon, partly because of a lack of willingness to accept goods on the part of foreign suppliers - particularly if the developing country is offering an unsaleable product or only a proportion of the value of the debt in the form of goods - but also because of a lack of keenness on the part of many developing country governments. Repayment of debt may be given a low priority and also goods for debt arrangements may run counter to other agreements including the IMF negative pledge.

One country which has discussed goods for debt arrangements is Peru. Unconfirmed reports suggest that the trading arm of an American bank will market some of Peru's non-traditional exports, and that for each $2 of export revenue generated the parent bank will be able to retire about $1 of debt. At the time of writing (early 1987) it remains to be seen whether or not various proposed Peruvian deals will be confirmed and, also, whether or not the goods for debt model will be extended to other countries.

There is also much attention paid currently to schemes involving debt-equity swaps but these do not fall within the orbit of countertrade.

3.4. Examples of Types of Countertrade

Four examples of countertrade deals are given in this section involving an escrow account transaction, a government to government agreement, a buy-back and a regional clearing agreement.

Details of the operation of the counterpurchase systems in Indonesia, India and Malaysia are given in Appendix 5 and examples of counterpurchase contracts are contained in Appendix 2. An example of an STA contract is also contained in Appendix 2.

(i) Example - Stages in the Execution of a Deal Using an Escrow Account

Many variations are possible in the execution of such deals. This hypothetical and simplified example is loosely based on one of the types of deals which are carried out by such countries as Zimbabwe. The stages are listed in broadly sequential order but there are no set rules and one stage may overlap with another.

The example is based on a transaction between an African country (A) and an Eastern bloc country (EB) involving the shipment of A's tobacco, organised through a tobacco merchant, to a Foreign Trade Organisation (FTO) in EB which supplies a range of agreed products in return.

1. Preparation. A proposal is prepared on the basis of considerable background work. It sets out products, values, destinations and delivery periods.

2. The proposal is considered by the government in Country A and accepted after three buyers are found who wish to procure the machine tools and spare parts offered by Country EB. The necessary authority to proceed is given, which includes authority to obtain import licences and to hold funds offshore.

3. A contract is signed between the tobacco merchant and the FTO.

4. The three buyers of the machine tools and spare parts provide the tobacco merchant with letters of guarantee to purchase. Meanwhile, the tobacco merchant has borrowed money to purchase the tobacco from producers. It is his responsibility to finance the interval between the purchase of the tobacco and the eventual payment from the three local companies when the machine tools and other goods are received.

5. The tobacco is shipped. It is valued at the prevailing world market price.

6. The funds are lodged in an escrow account which has been opened in the name of the tobacco merchant (or his bankers) in a bank in Vienna. Interest on the funds accrues to the tobacco merchant.

7. Within the period of six months which is stipulated in the contract, the goods are shipped from Country EB and payment to the suppliers is made from the escrow account (the tobacco merchant having authorised his bankers to open a letter of credit to allow the overseas party to withdraw funds from the escrow account).

8. On receipt of the goods in Country A, the three buyers pay the tobacco merchant in local currency plus a 5 per cent commission to cover transaction and other costs.

The transaction is concluded.

A variation on the above example occurs with triangular (or multi-country) deals involving three (or more) countries. For example, the African Country A may not need any goods from Country EB but it does need tractors from a West European country (WE). In this example, the tobacco is shipped to Country EB, Country EB's exports are sold to other countries, the foreign exchange earnings are lodged in an escrow account and are used to pay the tractor manufacturer for the shipment of tractors to Country A. Such deals are highly complex, involve special skills and contracts, and invariably require an international trading house (or similar organisation) to organise the transaction. Such deals are also, by their very nature, likely to involve high costs (including disagios on the sale of Country EB's exports and commission to the international trading house) which will usually, at least in part, be loaded on to the price of the imported product (tractors in this example).

(ii) Example of a Bilateral Government to Government Trade Agreement

As already noted, there are many forms of bilateral government to government trade agreement, ranging from some very large agreements operated by countries such as India to quite small reciprocal arrangements. Zambia's agreements with several countries have lapsed but an agreement with Romania continues to operate. The main points are described below.

A Zambia/Romania long-term agreement exists and operates through a system of annual (or periodic) protocols at which time the products and values ($2.5 million on each side in the 1985/86 protocol) are agreed. Each country establishes its own "barter account", the Zambian one being held at the Zambia National Commercial Bank (a state-owned bank), and the Romanian account being held at the Romanian Bank for Foreign Trade. The Ministry of Commerce and Industry in Zambia is responsible for negotiating the protocols and for allocating the appropriate import licences.

When a Zambian company wants to import from Romania, it raises a letter of credit in favour of the Romanian exporter. The Romanian exports are invoiced in US dollars but the Zambian importer pays an equivalent value in Kwacha. The accounts in each country are recorded in both US dollars and local currency but only local currency payments are made from them. Therefore each side opens letters of credit and pays its own exporters in local currency. The agreement continues to run until the full value has been traded, or, if an imbalance remains, it must be settled in foreign exchange. Interest on imbalances is charged at 7 per cent.

Such arrangements can operate quite smoothly but problems can arise - in Zambia's case particularly since the period of the devaluation of the Kwacha. The sequence of events is usually that Zambia imports first and the barter account is credited with funds, but if the Kwacha devalues in the intervening period before exports are shipped there are insufficient funds in the account to pay the Zambian exporter in local currency at the new exchange rate. At one stage the Government of Zambia had to subsidise the account in order to resolve the problem.

(iii) Example of a Buy-back

Douala Pulp Mill, Cameroon

Voest-Alpine, the Austrian engineering group, was awarded a contract by the Cameroon Government for the design and construction of a pulp mill. Soon after awarding the contract the government ceded all its commercial rights and obligations to a company called Cellucam, of which government institutions held 75 percent of the shares. The remainder of the shares were sold to Voest-Alpine (3 per cent), Islamic Bank (7 per cent) and the Swedish Cellulose Corp. (SCA) (15 per cent). The latter also had exclusive marketing rights for the mill's output. The mill was completed in the early 1980s at a cost of $300 million.

Voest-Alpine used sub-contractors from six other European countries: France, the German Democratic Republic, Poland, Sweden, the UK and Yugoslavia. These sub-contractors accounted for 67 per cent of deliveries and services to the project in value terms.

80 per cent of the project financing was arranged by the contractors, including Voest-Alpine. Each of the 15 sub-contractors had to find its own financing sources and arrange the necessary credit guarantees. The balance of the project cost was provided by the shareholders of Cellucam from the company's equity.

Repayment of the credits is made from the revenues received from the pulp exports negotiated by SCA, whose marketing arrangement runs for 10 years, equivalent to the duration of the loan periods.

(iv) Example of a Regional Clearing Agreement

PTA - Preferential Trade Area for Eastern and Southern African Countries

Regional clearing agreements do not fall strictly within the definition of countertrade but they are related to reciprocal trading arrangements. There appears to be considerable interest in such practices in various parts of the Third World and, therefore, a short description of the PTA's clearing facility is given here.

The PTA was created in 1981 and its members include Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

One of the aims of the PTA is that intra-regional trade should be encouraged and that payments should be organised through a central clearing facility whereby member countries can use national currencies for the settlement of day-to-day payments and only use convertible currencies for settling net balances at the end of the transaction period.

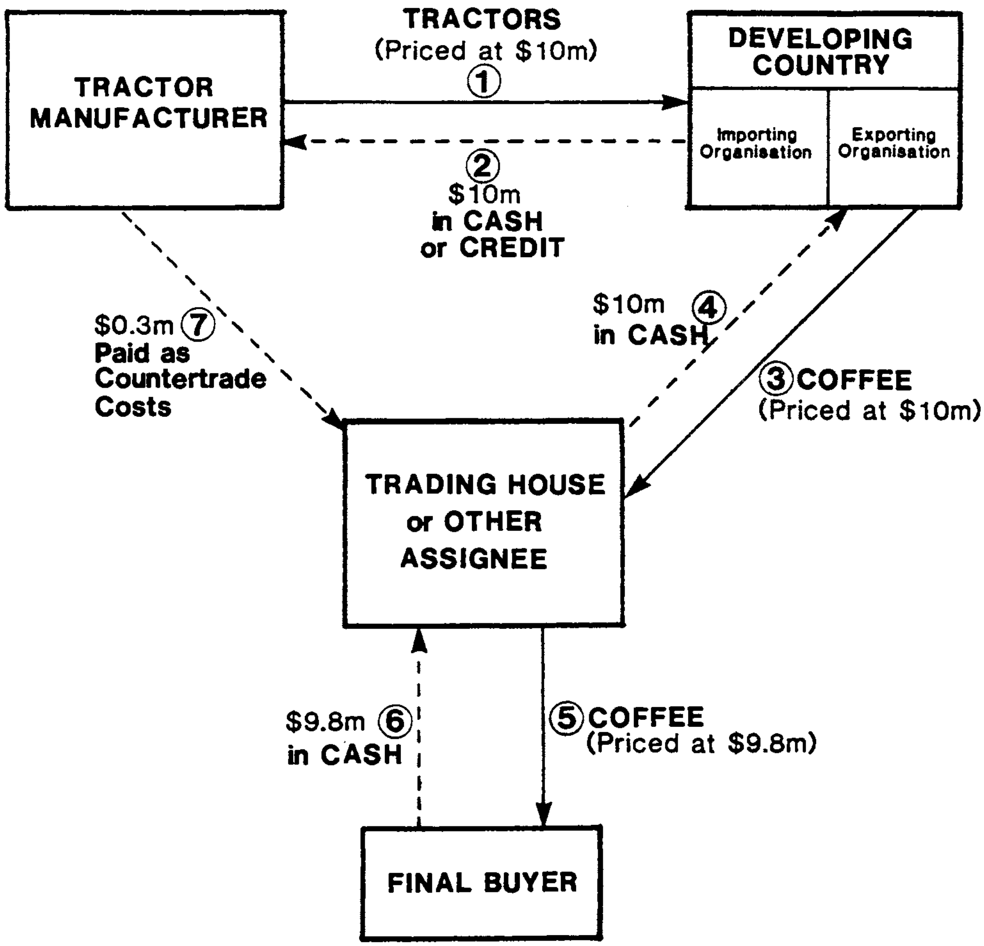
In accordance with these aims the PTA Clearing House was established and became operational in February 1984. The Reserve Bank of Zimbabwe has acted as the Executive Secretariat of the Clearing House. The chain of communication is as follows: each individual company or organisation deals with a commercial bank in its own country which, in turn, deals with its own Central Bank which deals with the Clearing House. A booklet entitled "PTA Multilateral Clearing Facility: Operational Procedures Manual" sets out the details of the scheme, including a requirement that all members maintain an account in US dollars with the Federal Reserve Bank in the USA, and also sets out, in PTA units of account (equal to IMF Special Drawing Rights), the limit of each participant's net credit or debit position.

It is early days yet to make any judgement about the PTA's clearing facility. A report published by the PTA HQ in Lusaka in May 1986 entitled "Report on the Under-Utilisation of the Clearing House" has pointed out that the clearing facility is only being used for about 10 per cent of the potential intra-PTA trade which could be channelled through its structure. Also, the considerable bilateral imbalances which exist at the end of each transaction period (two calendar months) mean that most settlements have to be made in foreign exchange, which defeats the object of trying to use national currencies as much as possible.

Part of the problem has been identified as the inadequate level of knowledge about the system in member states. A more serious problem is that particular member countries often insist on foreign exchange payments for their main export items and will not allow them to be traded through the clearing facility. Furthermore, some members continue to operate bilateral trade and payments agreements with each other outside the scope of the PTA.

On the more positive side, a summit meeting in 1986 committed member countries to channel all intra-PTA trade through the clearing house. There is evidence of expanding trade through this mechanism and there have been no defaults up to the time of writing (early 1987).

Example of a Counterpurchase Transaction



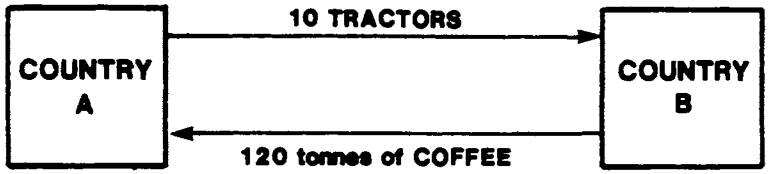
Notes:

(i) ——► Product movements. - - -► Money movements.

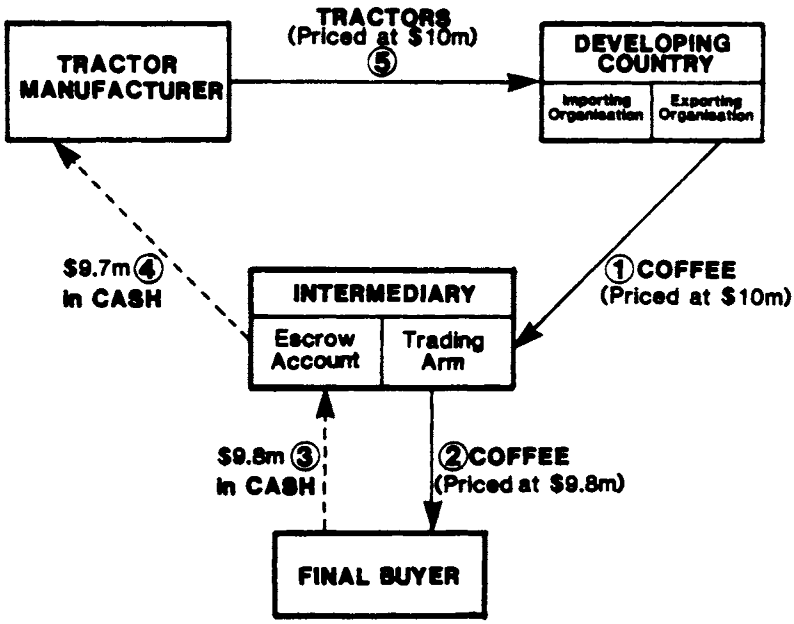
(ii) The numbers in circles indicate the sequence of events.

(iii) In this example the counterpurchase obligation is assigned to a trading company which buys coffee and sells it at a discount of $200,000. The tractor manufacturer pays $300,000 to the trading company to cover the cost of the discount and other expenses. The tractor company either absorbs some of this amount or exports $9.7 million worth of tractors at an invoice value of $10 million.

Example of a "Pure Barter" Transaction

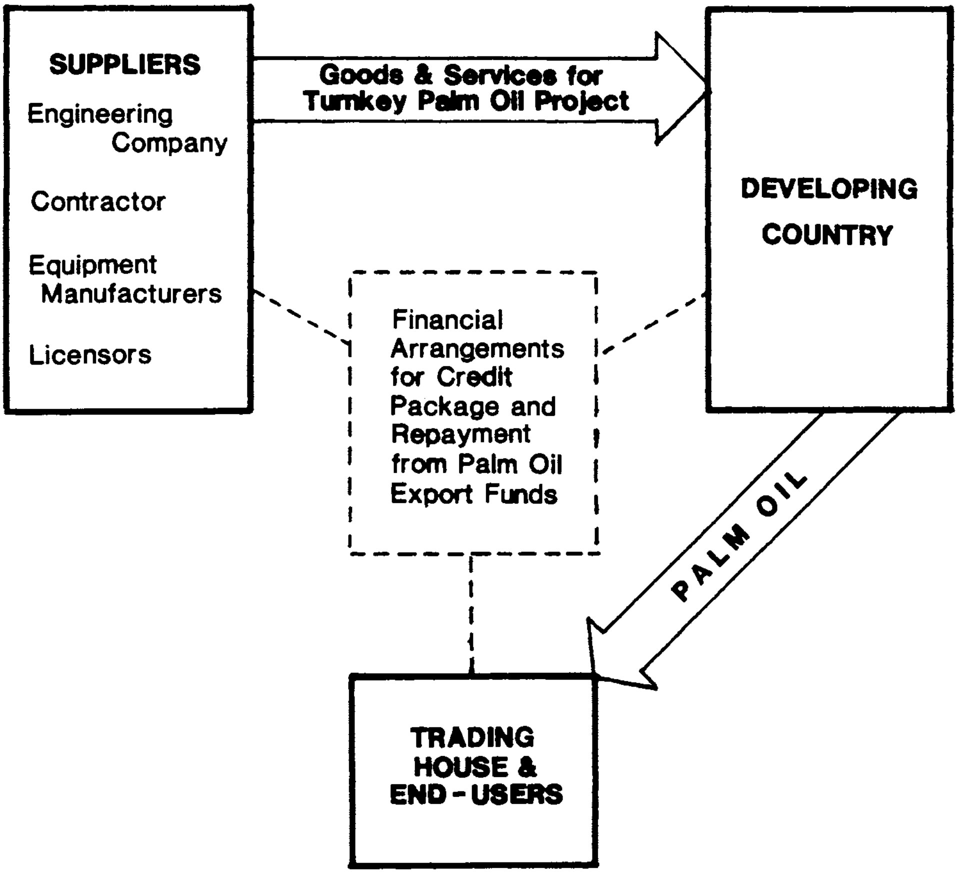


Example of a "Barter Style" Transaction

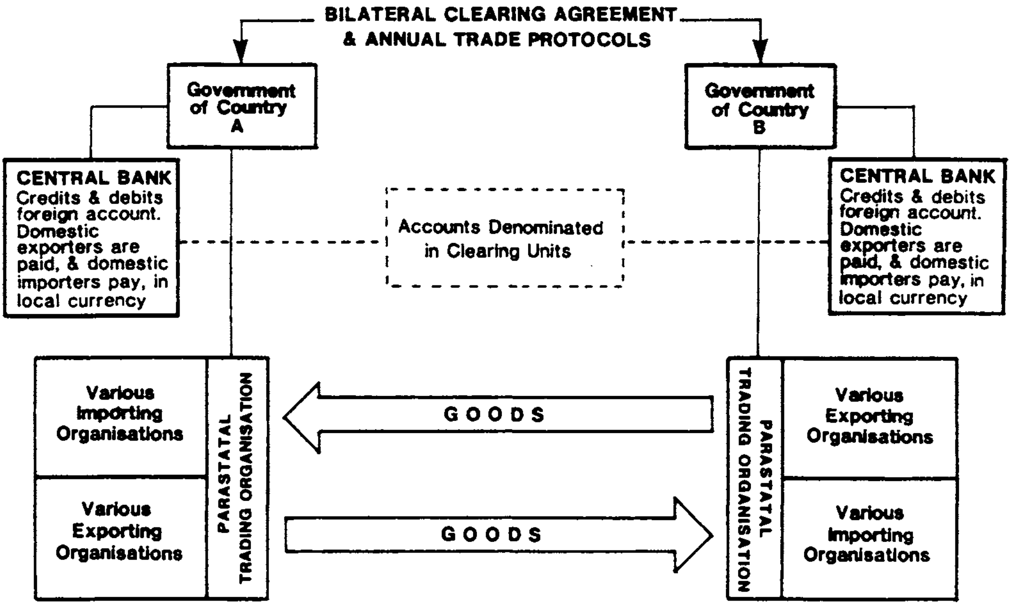


Notes:
(i) ——▶ Product movements. - - - ▶ Money movements.
(ii) The numbers in circles indicate the sequence of events.
(iii) In this example the discount for the final buyer is \$200,000 and the commission/costs retained by the intermediary are \$100,000. The tractor exporter either absorbs some of the \$300,000 or exports \$9.7 million worth of tractors at an invoice value of \$10 million.

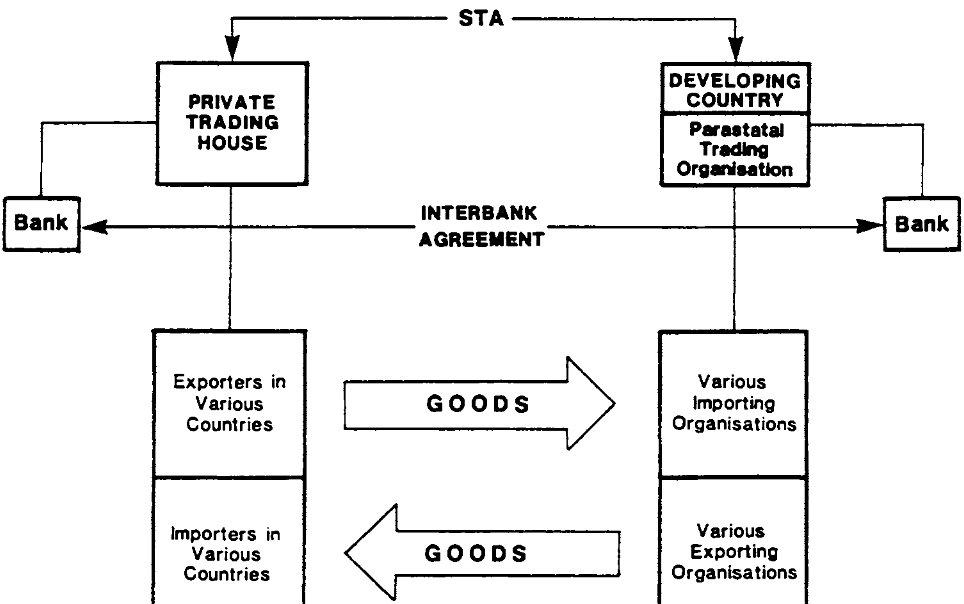
Example of a Buy-Back Arrangement



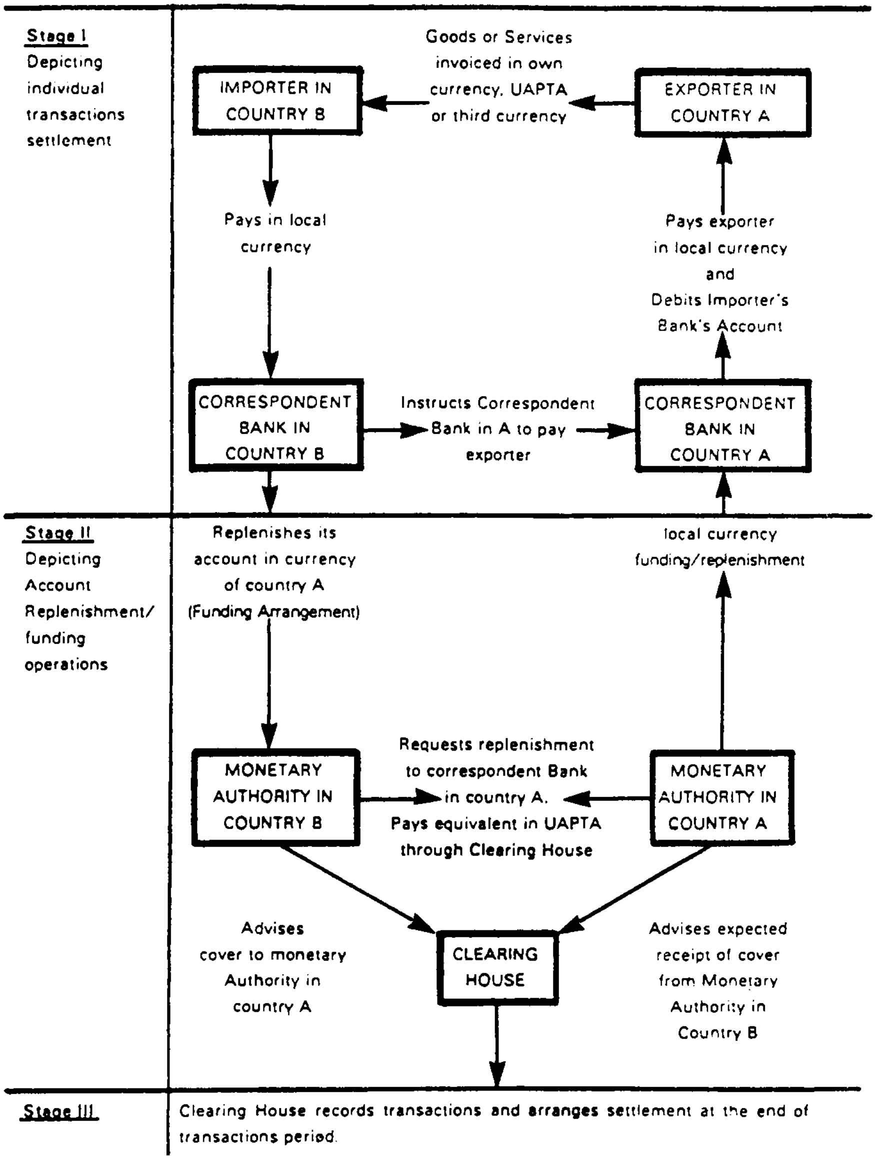
Example of a Bilateral Clearing Agreement



Example of an STA



Flow Chart of the Operational Procedure for the PTA Clearing House



Notes: (i) UAPTA = Unit of Account of the PTA.

(ii) Reproduced from the PTA Multilateral Clearing Facility: Operational Procedures Manual (1984).