

Chapter 9 SOURCES OF ADVICE, ASSISTANCE AND COUNTERTRADE SERVICES

9.1. Introduction

The upsurge in countertrade activity since the beginning of the 1980s has resulted in great interest being displayed in countertrade by most developing countries. These countries can turn to many sources of advice, assistance and countertrade service, ranging from conferences on countertrade organised by international institutions, where broad issues of countertrade policy are discussed, to the commercial activities of trading houses which act as intermediaries in particular deals.

The extent to which developing countries want or need to utilise the services of advisers and intermediaries is discussed in section 9.3.

9.2. Assistance and Services Available

The range of assistance and services available may be broadly divided into official/semi-official and commercial.

9.2.1. Official and Semi-Official Assistance

(i) International Organisations

A number of international organisations have entered the countertrade arena, mainly in the form of seminars or written reports. For example, the Commonwealth Secretariat sponsored the Commonwealth Symposium on Countertrade which was held in Kingston, Jamaica, in 1986 and was attended by representatives from 14 developing country members of the Commonwealth. UNCTAD, often in conjunction with the organisation ASTRO, has also sponsored several seminars as well as publishing some papers and reports on countertrade. Other organisations which have published material on countertrade include the OECD and the United Nations Economic Commission for Europe. Appendix 3 contains references to many of the reports on countertrade of particular interest to developing countries.

There have also been a few occasions when international institutions have supplied short-term advisers to particular developing countries in order to offer "tailor-made" policy level advice on countertrade.

(ii) South/South Assistance

Some offers of assistance are available from one developing country to another. For example, the State Trading Corporation of India has advised a few parastatal organisations in other countries on countertrade policy and procedures. Also, a senior official of the Government of Zimbabwe has indicated, on an unofficial basis, that some advice, if requested, might be made available to other African countries with less experience of countertrade.

The policy of Singapore is also worthy of note. The government hopes to establish Singapore as a countertrade centre. As part of this policy the Government of Singapore has offered various incentives, including tax advantages, to international trading houses and local companies to establish countertrade subsidiaries in Singapore under the Pioneer Service scheme. There

are also some international banks that specialise in countertrade which are represented in Singapore. The government hopes that Singapore will develop as a services centre for countertrade, not only for deals involving Singaporean companies, but particularly for trading enterprises in other countries. In pursuance of this objective the Trade Development Board (TDB) has indicated that it wishes to be listed in these guidelines as a contact point for Commonwealth developing countries seeking advice on countertrade matters, particularly for deals involving partners in South East Asia. The TDB, on a no cost basis, would attempt to put enquirers in touch with the countertrade companies which could provide the appropriate services. The contact point is:-

Singapore Trade Development Board
1 Maritime Square 03-01
World Trade Centre
Telok Blangah Road
Singapore 0409
Telex: RS 28617/28170 TRADEV
Contact: Mr. Maran Dorairaj
Senior Trade Officer

9.2.2. Commercial Assistance

Under the broad heading of commercial assistance are included all activities for which fees are paid or costs/commissions are earned.

(a) Policy Guidance

Various trading houses, banks and consultancy organisations have some experience of giving policy level advice to developing country governments, either paid for directly or through aid agencies.

(b) Information and Consultancy Services

Various services are available.

(i) Basic information on particular countries including regulations/guidelines previous experience of countertrade, contacts/addresses (government departments, central bank, etc.). Provision of lists of companies as contacts for disposal of goods received within countertrade.

(ii) Special consultancy services, e.g. advice on procurement of products in developing countries, market research for "difficult to move" products, studies of the feasibility of countertrade in particular cases.

(iii) Commercial conferences and seminars, mostly run in Europe and North America by organisations such as Business International, primarily for Western businessmen.

(c) Reports and Periodicals

In addition to reports published by international institutions, there has also been a vast increase in recent years of reports on countertrade which are available for sale from commercial publishing houses such as the Economist

Intelligence Unit. Some of these reports which are of particular relevance to developing countries are listed in Appendix 3. Specialist periodicals dealing with the subject of countertrade are listed in Appendix 4.

(d) Transaction Structuring

Many trading houses, banks and other institutions provide some or all of the following services: participating in all aspects of the negotiation of the countertrade contract including pricing, legal arrangements and liaison with foreign partner; advising on countertrade costs; making arrangements for supply of countertraded products and acting as "marriage broker" in arranging for disposal of goods. These services are often linked to formulating a financing package, including advising on obtaining credit and credit insurance. The services described may be provided to any of the principal parties involved in a deal. Payment is usually earned on a commission basis.

(e) Monitoring

Supervision of the operational parts of the transaction to ensure that agreed arrangements are properly executed.

(f) Trading

Taking title to countertrade goods, either

- (i) on a back-to-back basis, where the intermediary takes title but with a final buyer pre-arranged, or
- (ii) on a position basis, where the intermediary takes title without a pre-arranged final buyer.

(g) Special Services

For example, legal services, insurance services, etc.

There are in existence a number of directories describing the services of intermediary organisations and listing some of the major ones. The most comprehensive directory is that published by Countertrade Outlook on a biennial basis, entitled "Directory of Organisations Providing Countertrade Services".

In Appendix 6 we present a short directory of organisations which provide specialist services to developing countries such as the target group of countries for these guidelines.

Among the most important suppliers of services are the trading houses and banks which are profiled in the following two sub-sections.

9.2.3. Trading Houses

Many of the world's major trading houses involved in the trading of hard and soft commodities play a pivotal role in countertrade. A number of the largest trading houses have created special countertrade units which offer companies the full range of services, including structuring deals and taking over countertrade obligations by taking title to goods on their own account. For example, in many of Indonesia's countertrade transactions the deals have been structured by, and the goods have been assigned to, these major trading houses.

Many of them look on countertrade as a useful adjunct to their normal business because the profit margins that can be earned through successful countertrade are higher than the low margins which usually exist for conventionally traded bulk commodities. Some trading houses not only act as intermediaries but become the main instigators and partners in countertrade deals.

Four very large trading houses which are among the most significant "players" in the world of countertrade are worthy of mention (in alphabetical order). Andre is a major grain and soft commodity trading house based in Lausanne, Switzerland, which has a long history of involvement in countertrade through its Finco subsidiary. Cargill, the US based grain and commodity trading house, created a specialist countertrade group in 1983 which operates from various locations including Geneva (within the Tradax subsidiary). Metallgesellschaft is a major trading house which originated in West Germany and is involved in trading metals and other products. It has created a countertrade joint venture subsidiary with the French commodity house, Louis Dreyfus, known as M.G. Services which operates from three principal locations, New York, London and Hong Kong. The fourth trading house is part of the US based Phibro-Salomon group which consists of two autonomous subsidiaries, Philipp Brothers, the largest commodity trading house in the world, and Salomon Brothers, the financial services group. Phibro has a long track record in countertrade, particularly through its offices in New York and London.

The largest trading houses have significant advantages as providers of countertrade services. They have a worldwide network, a broad trading base, access to commodity markets, expertise in structuring deals and substantial financial resources.

Mention must also be made of the Japanese trading houses, the sogo shosha, the nine largest of which, in order of sales turnover, are Mitsubishi, Mitsui, C. Itoh, Marubeni, Sumitomo, Nissho Iwai, Toya Menka Kaisha, Kanematsu-Gosho and Nichimen. These corporations are organised on a vast scale and have all the trading house advantages for countertrade noted earlier. In spite of the Japanese government's anti-countertrade stance, most sogo shosha have created countertrade units and have been actively involved in countertrade, particularly in Indonesia. Their involvement elsewhere in the world has also been considerable, but very often only on a reactive basis (where the trading house in question faces a countertrade requirement or when difficulties arise in importing Japanese goods into a developing country it may agree to take out countertraded exports).

9.2.4. Banks

Apart from normal banking activities, such as operating accounts and handling documentary credits, a number of banks also have a more active role in countertrade including:

- countertrade policy advice to governments
- transaction structuring
- specialist financial advice
- trading of countertrade goods.

Few banks supply all these services. Among the banks with the longest track record of involvement in countertrade are those in Vienna which originally specialised in East/West countertrade. Some of these banks have now expanded their countertrade activities on a worldwide basis. Examples of two such banks are given. The Creditanstalt Banking Group has a subsidiary trading and finance company, AWT, which offers within its range of services a full countertrade service including trading on its own account. Another Vienna bank is Centro Bank, the shareholding of which is split between four banks from different countries, including Kleinwort Benson of the UK. Centro Bank has a trading licence and, like AWT, employs a number of traders on its staff.

There are several other banks in Europe which have experience in countertrade, including involvement in transactions with developing countries. A notable example is the Banque Francaise du Commerce Exterieur in Paris. Many other banks in Europe have established countertrade units in recent years, mostly with a view to supplying their clients with assistance rather than actually trading, although some proposals are more ambitious than others. The Midland Bank Group of the UK, for example, has created International Trade Services with offices in various centres, including Vienna. Lloyds Bank of the UK is also active through its Barter and Countertrade Department.

In the USA, a number of banks established trading companies under the Export Trading Company Act of 1982. However, a number of these have been dramatically reduced in size and in some instances closed altogether. The countertrade activities of these banks have also been reduced in many cases.

There are also many banks in centres such as Singapore, Hong Kong and elsewhere which have developed some expertise in countertrade in recent years.

9.3. Requirements for Advice, Assistance and the Services of Intermediaries by Developing Countries

Opinions differ sharply in developing countries about the necessity and advisability of using the services of intermediaries. This debate primarily arises in relation to the requirements for using the services of trading houses for particular deals, which are variously described as absolutely essential or, conversely, unnecessary and overly expensive because, it is claimed, the intermediaries themselves are only interested in a quick "killing".

Some countries have sufficiently developed trading and banking sectors, with some experience of countertrade, that they feel themselves to be virtually self-sufficient in terms of the expertise and facilities required to do deals directly with partners in other countries without any intermediaries being involved. However, on some occasions, these countries may use intermediaries for convenience or when special expertise is required.

There are other developing countries, however, with relatively undeveloped banking and trading sectors and with very little experience of countertrade which have a much greater need for using the services of intermediaries, in what, after all, is often a highly complex form of trade.

For any developing country, the important point is that great care and attention should be paid to the selection of trading houses and other intermediaries with which to do business. There are some disreputable companies offering services, or suggesting countertrade deals, which should be avoided and these have created a bad reputation for intermediaries in general in some countries. However, there are also many highly reputable trading houses and other intermediaries involved in countertrade and it is the responsibility of the developing countries concerned to make a careful choice.