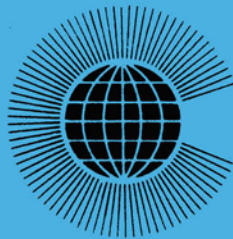


COUNTERTRADE

Guidelines for Developing Countries



Commonwealth Secretariat

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Export Market Development Division
Commonwealth Secretariat
Marlborough House, Pall Mall
London SW1Y 5HX

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FOREWORD

Countertrade, a term which embraces a variety of commercial mechanisms for reciprocal trade, has become a major element in the pattern of international trade. Even on a conservative assessment, between 5 and 8 per cent of world trade is now taken up in countertrading, while some analysts have put its share much higher.

The Commonwealth Secretariat does not adopt any official position on countertrade, either of approval or disapproval. In recognition of the increasing use of countertrade in international trade, however, the Secretariat organised a Symposium on the subject in Kingston in April-May 1986 in association with the Jamaica National Export Corporation. Representatives from 14 developing country members of the Commonwealth, together with a number of regional organisations, discussed many aspects of countertrade and recommended in the closing sessions of the symposium that a set of guidelines be prepared for the particular benefit of countries with little countertrade experience. The publication of these guidelines represents the fulfilment of that recommendation.

A number of references are made in the text to the countertrade practices and experiences of individual countries, particularly to those of the main countries visited in the field research - India, Malaysia and Zimbabwe. Such references are only made in an attempt to clarify general points by the use of practical examples. It is important to emphasise, however, that the references relate to information available at the time this research was carried out (March-April 1987) and may not necessarily reflect the current policies of those countries.

The Commonwealth Secretariat would like to express its appreciation to all those who have made the publication of these guidelines possible, to Produce Studies Ltd. who were responsible for their preparation, and for the contributions made by other experts in the field of countertrade.

ABBREVIATIONS

ASTRO	International Association of State Trading Organisations of Developing Countries
CT	Countertrade
EGGD	Export Credits Guarantee Department (U.K.)
FTO	Foreign Trade Organisation
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
PTA	Preferential Trade Area for Eastern and Southern African States
STA	either State Trading Agreement or Special Trade Agreement
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe

Chapter 1 INTRODUCTION

1.1. Background

There are almost as many definitions of countertrade as there are commentators on the subject, but in broad terms it may be defined as reciprocal trade involving two or more countries. A more in-depth approach to defining the subject is presented in Section 3.1.

There are just as many arguments about the proportion of world trade that is now carried on through countertrade arrangements. Quite apart from definitional problems which impact upon the question of relative importance, it is also an unanswerable question because of the lack of any comprehensive statistical base. However, most trade analysts now seem to agree that, according to the definition of countertrade which is adopted, somewhere between 5 and 20 per cent of world trade is conducted on this basis.

1.2. The Purpose of the Guidelines

The purpose of these guidelines is to provide information and advice on countertrade for Commonwealth developing countries, recognising that the need for assistance is greatest for those with limited countertrade experience. Some countries, such as Malaysia, are very experienced indeed but there are other Commonwealth members, many of them in Africa and the Caribbean, which have seldom engaged in reciprocal trading practices. Such countries are referred to as the target group of countries in this manual.

The general approach adopted is to view countertrade from a developing country perspective, which contrasts these guidelines with most of the published works on countertrade, which adopt the standpoint of exporters or governments in industrialised countries.

It is not the purpose of these guidelines to cover all the philosophical or macroeconomic arguments regarding the relative merits of multilateral and bilateral trade. These arguments, both pro and con, have been elaborated in numerous books, reports, articles and papers, some of which are listed in the Annotated Bibliography (Appendix 3).

On the basis of these arguments, some countries may have decided to avoid countertrade altogether. Most countries, however, are at least willing to consider the possibility of engaging in the practice. This is the starting point for the guidelines, which then proceed to take a very practical view of the subject, examining advantages and disadvantages for countries in differing economic circumstances. They are not "pro-countertrade", but attempt to explain how to obtain the best results from an imperfect trading system.

It is also not the purpose of these guidelines to provide blueprints of how to do countertrade deals. Any such attempt would be doomed to failure because there are an almost endless number of possible variations and the recipe for success in one country may be altogether different in another. However, there are a number of issues which are common to most countries which engage in the practice, and a full discussion of these issues is provided so that policy-makers in developing countries can interpret them in the light of their own particular circumstances.

The main intended audience is policy-makers in developing countries. They need to consider countertrade at two levels:

- (i) Devising a national policy.
- (ii) Originating, or responding to, particular proposals for countertrade deals.

There is considerable overlap in the issues to be considered at each level and they are therefore discussed without separation.

The guidelines are also intended for use by organisations in developing countries which are actively involved in the conduct of countertrade deals.

1.3. The Content of the Guidelines

The guidelines are organised on the basis of chapters each dealing with a set of major countertrade issues. Chapter 2 is concerned with a number of general issues and strategy choices for developing countries. Chapter 3 describes the various forms of countertrade and gives some examples of different types. Chapter 4 looks at the fundamentally important issue of the trading impact of countertrade. Chapter 5 discusses the production, as opposed to purely trading, aspects of countertrade. Chapter 6 is concerned with the question of the incremental costs which arise through countertrade and ways of limiting them. Chapter 7 is a major chapter dealing with contracts, contractual issues and the financial aspects of countertrade. Chapter 8 examines the question of how developing countries should organise themselves for countertrade. Chapter 9 gives information on the sources of countertrade advice and assistance. Chapter 10 provides comments on the often ignored subject of the research requirements for countertrade, plus monitoring and evaluation procedures. Chapter 11 contains checklists. Supporting documents and further background information are given in the Appendices.

Chapter 2 GENERAL ISSUES AND CHOICE OF STRATEGY

2.1. Why Countertrade?

It should never be assumed that countertrade necessarily involves benefits for developing countries and the reasons why any country engages in countertrade should be examined very closely.

At a greatly simplified level it is often possible to distinguish developing countries which:-

- (a) countertrade in order to export
- (b) countertrade in order to import.

Obviously, every countertrade transaction, by its very nature, involves both import and export but it is often possible to distinguish a country's primary motivation.

Case (a) is typified by countries which use the "muscle" of their purchasing power to force trading partners to take out some of the country's exports. This particularly relates to counterpurchase.

Case (b) is typified by countries which are in a severe financial position in terms of balance of payments deficit, debt, foreign exchange shortage and non-availability of credit facilities. Such countries have enormous difficulties in financing imports through conventional channels and turn to countertrade as a means of paying for imports. This is why countertrade is sometimes referred to as an alternative form of trade finance.

In fact, the idea of a spectrum could be developed with the motivation to export at one end and the motivation to import at the other. A country such as Indonesia, which operates a mandatory counterpurchase policy, would be placed well towards the "export end" whereas many countries in sub-Saharan Africa would be placed more towards the "import end".

The various perceived objectives of countertrade are described in the following paragraphs in greater detail and are grouped under three headings. A country may pursue one or several of the objectives at any one time. The extent to which the perceived objectives are actually realistic is discussed in greater detail in later sections.

(i) Export Related Objectives

- (a) To increase exports by using the country's import purchasing power to "twist the arms" of foreign suppliers by making the award of import contracts conditional upon an agreement to take some reciprocal exports.
- (b) To increase exports by countertrading with "cash-poor" trading partners (perhaps in other developing countries or in the Eastern bloc) which would not be in a position to purchase the country's goods for foreign exchange.

- (c) To increase exports of "distressed commodities" which the country is having difficulty in selling because of depressed world market conditions.
- (d) To achieve incremental exports by insisting that countertraded exports are destined for "new" markets or for "new" customers in established markets.
- (e) To encourage increased exports of "non-traditional" export items.
- (f) To use countertrade to help in the establishment of new markets for the country's exports which will later be replaced by commercial export sales.
- (ii) Import Related Objectives
 - (a) To enable countries experiencing severe foreign exchange shortages to import raw materials, spare parts and other goods which it would not be able to purchase on usual commercial terms. In this case countertrade is viewed, primarily, as a means of financing imports.
 - (b) Further to (a), to enable local industries which are in danger of closing down because of shortages of raw materials and/or spare parts to obtain those imports and thereby stay in existence.
 - (c) Further to (a), to avoid using some export earnings for debt repayments by tying these export earnings to an equivalent value of imports.
 - (d) To develop a wider range of sources of imports.
- (iii) Other Objectives
 - (a) To achieve a balance of import and export trade with particular countries.
 - (b) To encourage foreign investment in the country by allowing the export revenues from the sales of the output of the project to repay the invested funds (buy-back).
 - (c) To encourage increased local production by requiring foreign suppliers to source components or other products within the purchasing country (offset).
 - (d) Further to (c), to secure technology transfer objectives.
 - (e) To enable trade to take place with foreign partners and/or countries which are only prepared to trade on a reciprocal basis.
 - (f) To contribute to debt repayments (when debt is paid in export products).
 - (g) To develop intra-regional trade, either through bilateral arrangements or regional clearing houses.

2.2. Strategy Options

As already noted, the motivation for engaging in countertrade is involved with one or more of the aims of increasing exports, ensuring a supply of imports or achieving broader development objectives. It is important for developing countries to have a clear idea of the objectives they are trying to pursue and then to consider the various strategy options, set out below, in the context of the best way of achieving those objectives.

However, in the first place, it is important to question whether or not the objectives can be achieved without countertrade. If an alternative course exists it is likely that it will be preferable to countertrade. A maxim adopted in some countries is "if our exports can be sold for cash then they should be sold for cash". In other words, it is argued that exports should only be allowed for countertrade if they are products that the country faces some difficulty in selling.

On the assumption that countertrade is seen to offer the possibility of certain benefits, there are a number of basic strategic issues which policy-makers in developing countries must confront prior to making the appropriate policy decisions.

(i) Proactive or Reactive Policy

In practice, most developing countries adopt a combination of the two policies, whereby they both go out in search of countertrade opportunities as well as responding to suggestions for deals from other countries and/or organisations.

(ii) Mandatory or Non-mandatory Policy

This particularly applies to countries which operate the counterpurchase form of countertrade (refer to section 3.3.1). An example of a mandatory policy is that introduced by Indonesia in 1981, profiled in Appendix 5, which stipulates that all non-aid funded imports exceeding a value of 500 million Rupiah by Indonesian government organisations must include an agreement by the supplier to take out an equivalent value of Indonesian goods.

Most developing countries, however, have opted for a non-mandatory policy whereby countertrade is accepted as a possibility but is not obligatory. Two countries which have introduced a non-mandatory counterpurchase policy, whereby foreign suppliers may include countertrade in their tender bids but are not required to do so, are Malaysia and India, both of which are also briefly profiled in Appendix 5.

(iii) Long Term Agreements or Ad Hoc Deals

Many developing countries become involved in both long term and ad hoc transactions whereas others have a distinct preference for one or the other. Zimbabwe, for example, has refused to become involved in long term arrangements, arguing that it wishes to retain trading flexibility for its exports according to changing market conditions. On the other hand, some countries, such as India, have entered into several long term agreements.

Long term may be regarded as in excess of one year. For example, many government to government agreements, such as those favoured by Eastern bloc countries, run for a term of five years. Ad hoc deals, typically, are organised on a "one-at-a-time" basis. Increasingly there are also a number of medium term arrangements, often based on one year agreements, for example, State Trading Agreements, which are described in section 3.3.3(b).

Several arguments can be advanced for and against long term arrangements, some of which are outlined in section 3.3.3(a).

(iv) Limited or Large Scale Involvement in Countertrade

Policy-makers should confront the question of what level of countertrade is considered desirable and realistic. There is some evidence to show that countries which attempt a massive transfer from conventional trade to countertrade suffer severe problems, not least the inability of the administrative system to cope with the changes. Some commentators both inside and outside Nigeria have suggested that the transfer to a countertrade policy in the period prior to August 1985 was attempted on such a large scale that it was likely to cause severe trading disruption.

Many countries, including Zimbabwe for example, have specified that they wish countertrade to account for only a small percentage of total external trade.

(v) Other Strategic Issues

There are a number of other issues of government policy to be resolved, most of which are discussed in greater detail elsewhere in the guidelines and are only mentioned here.

- Whether to establish specific government machinery for countertrade or to adopt an entirely case by case approach (refer to Chapter 8).
- Whether to engage in countertrade purely as a public sector activity or also to involve the private sector.
- Whether or not to specify countertrade partners by geographical or economic type, for example, Eastern bloc only.
- Which exports to allow for countertrade (refer to Chapter 4).
- Which imports to allow for countertrade (refer to Chapter 4).
- Whether or not to use the services of countertrade advisers and intermediaries (refer to Chapter 9).

2.3. Are all Developing Countries Suited to Countertrading?

The arguments for and against countertrade should be viewed in terms of the circumstances of particular countries. A countertrade policy suitable for one country may be entirely unsuitable for another. Having said that, it is

possible to distinguish groups of countries, grouped on the basis of their economic characteristics, which are more suited to countertrading than others.

(i) Countries in a Favourable Position

- Countries with a diversified production/export base which can offer a wide range of possible export products for countertrade.
- Countries with a substantial import absorption capacity.
- Countries in a strong financial position so that all countertrade options are open. (Counterpurchase, for example, is not usually a possibility for "bankrupt" countries; refer to section 3.3.1.)
- Countries which import many goods and projects on commercial terms as opposed to aid-financed or soft loan terms.

(ii) Countries in a Less Favourable or Unfavourable Position

- Countries with a mono-product or limited production/export base which have very few products to offer for countertrade.
- Countries with a limited import absorption capacity.
- Countries in a very weak financial position.
- Countries which have accepted IMF loans and conditions which may be influenced by that organisation against countertrade. (In addition to a general antipathy to reciprocal forms of trade and a preference for multilateral trade, the IMF is also "anti-countertrade" because of the possibility that foreign exchange earnings, part of which might be used for repaying debts, may be held offshore and used instead for financing imports within countertrade arrangements. The extent to which the IMF or other international institutions have actively dissuaded developing countries from countertrading is not known.)
- Countries which receive most of their imported projects and capital goods from aid funds or soft loans where countertrade would, in nearly all cases, be inappropriate.

In summary, it appears that the developing countries which may be in the best position to benefit from countertrade are those with fairly developed economies (perhaps Malaysia and India might be examples), whereas those in the weakest position are those which are indebted, small and with a very limited production/export base. The dilemma is that the latter group may have the greatest need to discover and utilise unconventional forms of trading such as countertrade but, at the same time, may be in the weakest position to implement such policies successfully. Countries which turn to countertrade in desperation rather than in a planned and logical manner may well derive no real benefits.

However, as described in Chapter 3, the term countertrade covers a multitude of forms of reciprocal trading, and although some countries may be in a weak position to benefit from countertrade in general, they may still be able to select particular variants of the practice which offer genuinely beneficial opportunities.

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 per cent 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.

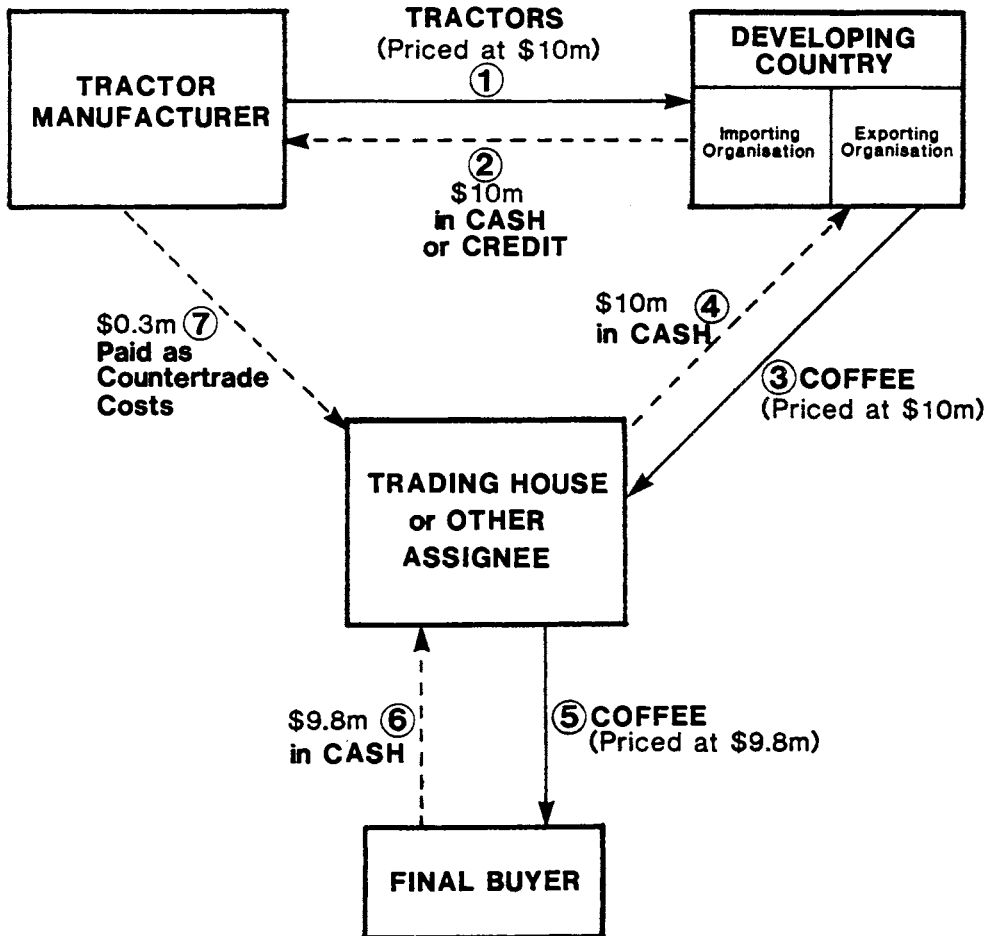
In accordance with these aims the PTA Clearing House was established and became operational in February 1984. The Reserve Bank of Zimbabwe has acted as the Executive Secretariat of the Clearing House. The chain of communication is as follows: each individual company or organisation deals with a commercial 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.

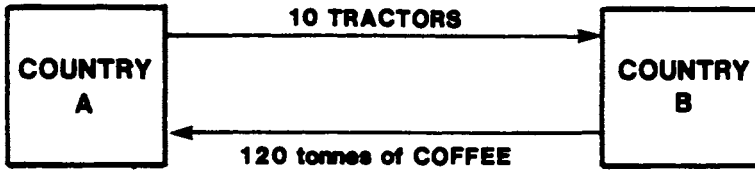
On the more positive side, a summit meeting in 1986 committed member countries to channel all intra-PTA trade through the clearing house. There is evidence of expanding trade through this mechanism and there have been no defaults up to the time of writing (early 1987).

Example of a Counterpurchase Transaction

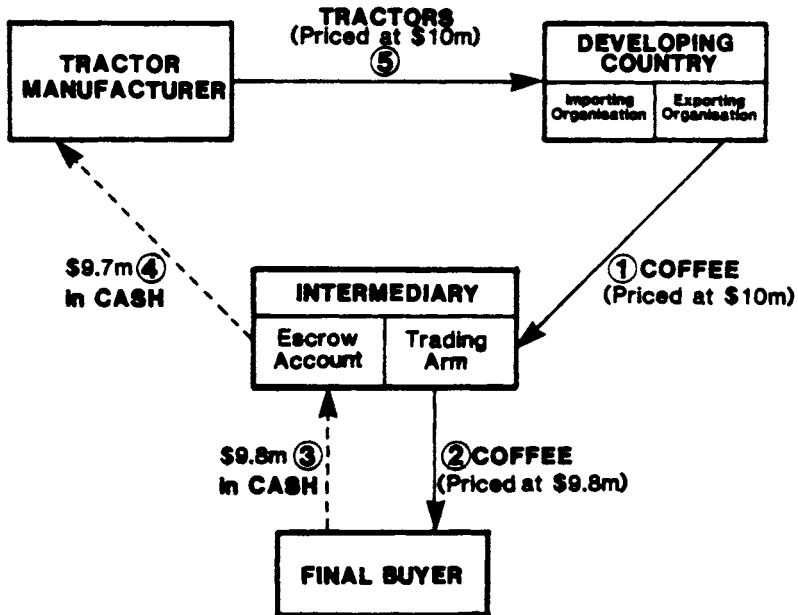


- Notes:
- (i) \longrightarrow Product movements. \dashrightarrow Money movements.
 - (ii) The numbers in circles indicate the sequence of events.
 - (iii) In this example the counterpurchase obligation is assigned to a trading company which buys coffee and sells it at a discount of \$200,000. The tractor 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

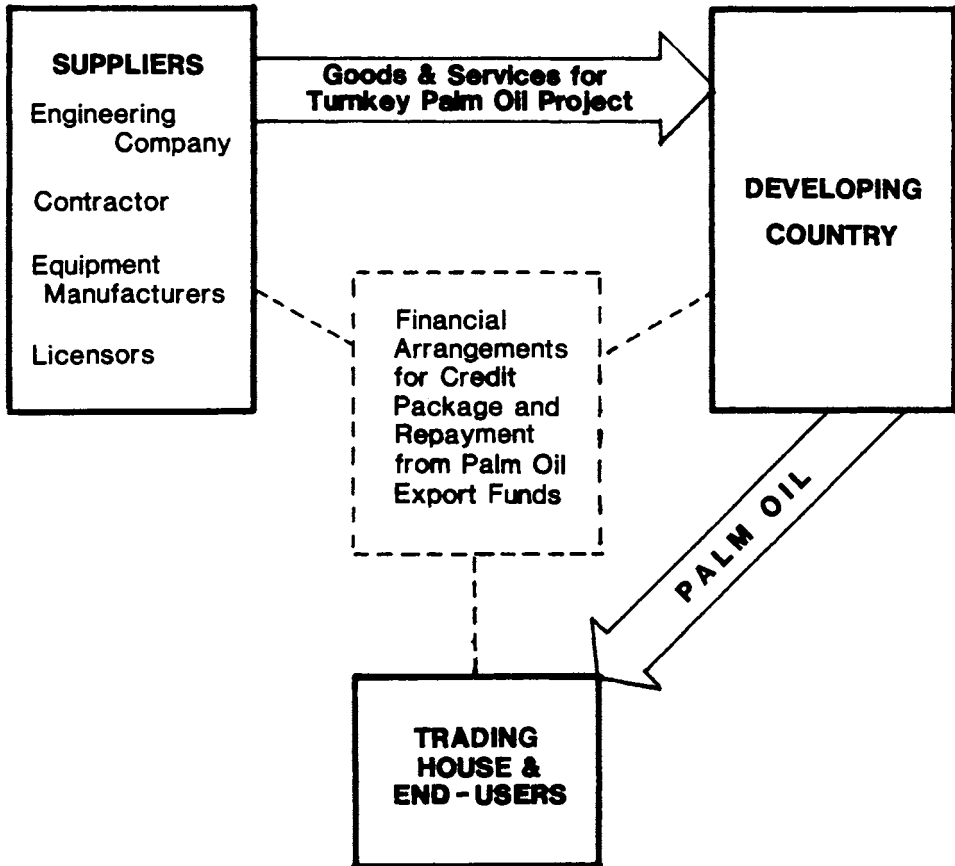


Example of a "Barter Style" Transaction

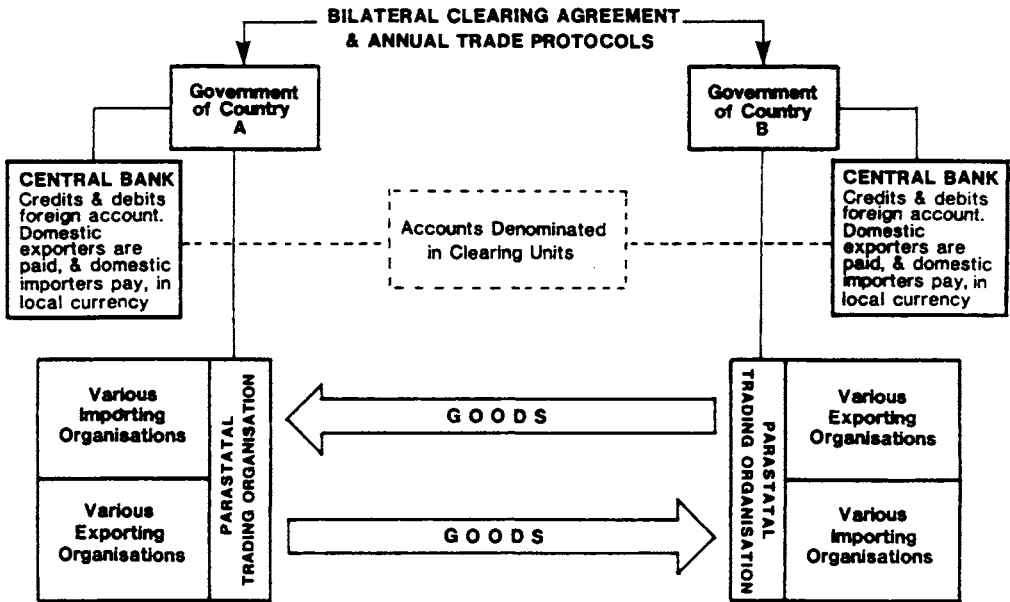


- Notes:
- (i) \longrightarrow Product movements. $-\ - - \longrightarrow$ Money movements.
 - (ii) The numbers in circles indicate the sequence of events.
 - (iii) In this example the discount for the final buyer is \$200,000 and the commission/costs retained by the intermediary are \$100,000. The tractor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

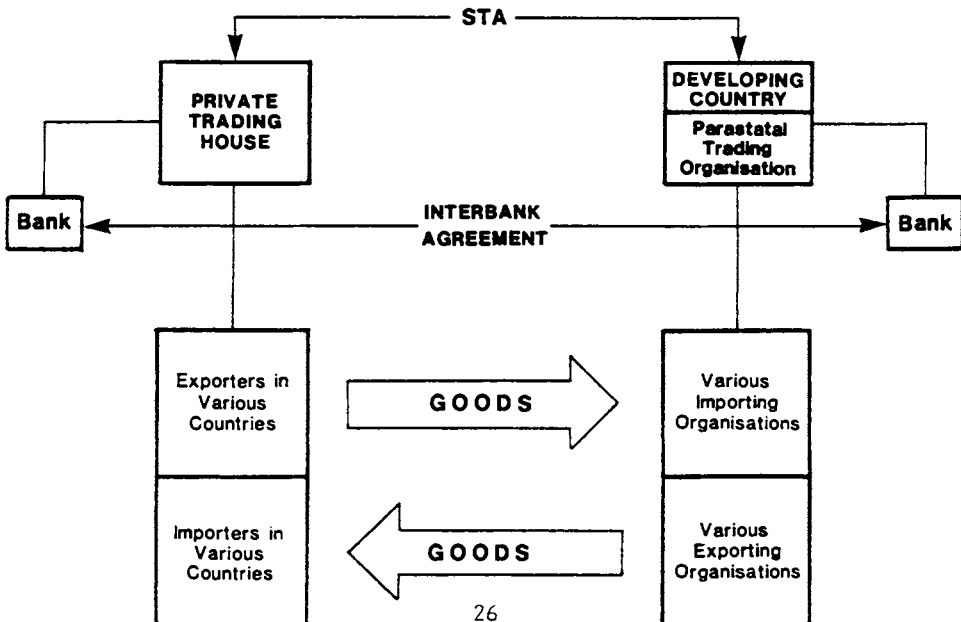
Example of a Buy-Back Arrangement



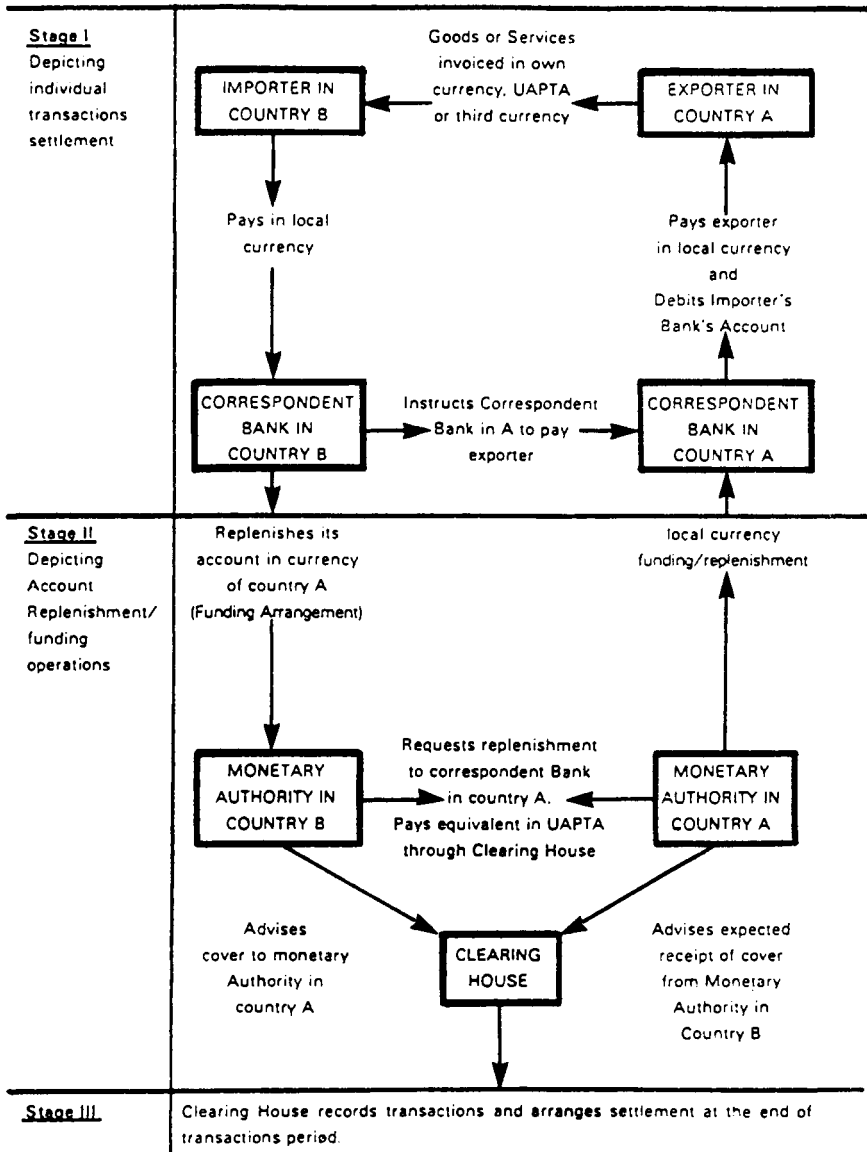
Example of a Bilateral Clearing Agreement



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).

Chapter 4 EXPORTS AND IMPORTS

4.1. Which Products to Export?

The extent to which countries control the products allowed for export within countertrade deals differs considerably. There are very few countries which allow countertrade partners to take out any products they please. Clearly, if no restrictions are imposed, it can be expected that countertrade partners will adopt the easiest course of action of taking out a developing country's main established export items and selling them to established customers. This involves a simple replacement of the country's commercial sales and involves no benefit to the country whatsoever.

Therefore, nearly all countries which engage in countertrade impose some restrictions on the exports allowed. In the case of counterpurchase transactions and the various forms of bilateral agreements, it is usual to have an export list of permitted products from which the partner is allowed to make a selection within the confines of any requirements that may be stipulated related to quantities and values of the products in question. In the case of barter-style countertrade, the country may specify export products which are allowed or may adopt a case-by-case approach of considering individual proposals as they arise.

The disadvantage for a developing country of having a published export list for countertrade is that it might limit scope for flexibility, whereas the advantage is that interested parties, both inside and outside the country, are informed about the export possibilities and time is not wasted on proposing countertrade deals that stand no chance of being seriously considered.

An alternative to producing an export list is to specify those products not allowed for countertrade. In Malaysia, for example, there are three specific exclusions: logs and sawn logs, crude palm oil and tin ore and concentrate. Also, goods produced in the Malaysian Free Trade Zone and in the Licensed Manufacturing Warehouses are not allowed for countertrade. Other products may be suggested for countertrade but all proposals are subjected to very close scrutiny by the Malaysian authorities.

A further alternative, if the developing country wants to avoid publishing an export list, is to operate a consistent policy which comes to be known and understood by the trading community. In Zimbabwe, for example, most deals have involved tobacco, short fibre asbestos and, occasionally, low carbon ferro chrome. There have been very few cases when other products have been allowed.

Whether an export list for countertrade is published or not, there are a number of issues to be addressed. These mostly relate to the question of how the developing country can ensure that countertraded exports are additional to the existing level of commercial sales. Cynics will say that the whole idea of additionality is a bogus concept, but at least the attempt must be made to examine the issues in greater depth.

4.1.1. Additionality

Perhaps the most important countertrade issue, and the most contentious, is whether or not countertrade can lead to incremental exports - the argument of trade creation versus trade diversion.

The issue becomes complex when an effort is made to define "additional sales" and, further, when any attempt is made to prove additionality.

In the first place a distinction should be made between share of the cake and size of the cake. Policy-makers in most countries are primarily concerned with increasing their own country's share of any given market and, therefore, view additionality in purely national terms. Additional sales in this case can be achieved by taking market share away from a competitor, while the size of the total world market remains the same. An alternative approach is to view additionality in terms of increasing the total world market for the product in question, i.e. increasing the size of the cake. This might be achieved, for example, particularly within the context of South/South countertrade, by countries increasing consumption of commodities received in countertrade which they would not otherwise be able to afford to import under commercial terms.

The importance of this distinction between size and share of the cake will be returned to, but for the time being the goal of increasing market share may be taken as paramount.

For any particular country, there are four broad categories of potential incremental exports through countertrade.

Examples

- | | | |
|------|--|--|
| (i) | Traditional exports to new buyers in an established market | African country X is a major exporter of a particular mineral. It regularly supplies end-users in the USA. If a countertrade deal involved supply to other end-user companies in the USA which were not previously customers, it could be argued that the sales were additional. |
| (ii) | Traditional exports to a country which was not previously a market for the product | South American country Y is a major exporter of frozen chicken. If sales could be commenced to a new market it could be argued that the sales were additional. This would particularly apply if the sales were to an Eastern bloc country or a developing country, either of which might be unlikely to purchase the item in question by paying in foreign exchange. |

- | | | |
|-------|---|--|
| (iii) | Traditional exports to a country which was previously a market but no longer has foreign exchange available to make purchases | Caribbean country Z used to sell bananas to a North African country but shortages of foreign exchange resulted in the trade being stopped. If banana exports were restarted within the context of a countertrade deal it could be argued that the exports were additional. |
| (iv) | Non-traditional exports to almost anywhere | Asian country A is a major exporter of tea but has only recently installed facilities for the production and export of tea bags. If tea bags could be exported within a countertrade deal it could be argued that the exports were additional. |

Any country may select one or more of these categories. Malaysia, for example, allows exports of some of its traditional exports such as palm oil and rubber (in circumstances specifically agreed by the Ministry of Trade and Industry) and is also encouraging exports of non-traditional items such as rubber gloves and furniture.

4.1.2. Bulk Commodities Versus Non-Traditional Exports

Most of the traditional exports which are countertraded by developing countries are bulk commodities. There are many arguments about the relative merits of countertrading bulk commodities as opposed to non-traditional exports, some of which are examined in this sub-section.

The most important countertraded exports from developing countries have been bulk commodities including oil, minerals and soft commodities. An argument can be put forward that it is not in the long-term interests of developing countries to countertrade such commodities except in limited and specified circumstances. However, countertrade partners nearly always prefer to obtain bulk commodities. They offer a means of assembling a sufficient value for the countertrade, the obligations can be easily assigned to trading companies, the products are usually sold on a standardised basis, the opportunity for using futures markets exists in many cases, and the countertrade discount required is quite small.

The first problem for developing countries is that countertrade nearly always involves extra costs which the developing country itself usually ends up paying. Therefore, if a developing country has surplus stockpiles of commodities such as cocoa, rice, tobacco, minerals and so on, even if the stocks are difficult to sell, it may well be in the developing country's interests to incur the expense of continued storage, or to sell conventionally at a discount rather than engage in countertrade which involves extra costs and may disrupt the world market for the product in question.

In recognition of these dangers, many developing countries try to insist on additionality but there are many problems in achieving this for bulk commodities. Firstly, the world market position for most commodities is either static or declining. In a post-recession era some growth may be re-established, but in the current situation there is no real growth and, except in unusual circumstances, general over-supply. Occasionally it may be possible to open up a genuinely "new" market through countertrade in an Eastern bloc country or in another developing country, but such circumstances are unusual. Secondly, it is virtually impossible in many cases for the developing country to check on the destination of the countertraded product. A commodity such as rubber may change hands many times before it reaches its final user. Thirdly, an apparent new market may be no such thing. For example, an occasion is known when a Western machinery exporter seeking "new" markets for an export from a South American country managed to identify an exporter who was about to begin supplying a new customer in Europe. The transaction was redressed as a countertrade, the government of the South American country thought a new market had been opened up, but in fact a conventional method of trade had been replaced by a higher cost method.

In practice, the countertrading of bulk commodities usually either means that the developing country displaces its own commercial exports or that it is trying to "steal" market share away from competitors within a finite market. The latter situation may result in short-term benefit, but in the longer term it is likely that the competing country or countries will be forced to follow the same countertrade line, as is happening now with a number of Indonesia's competitors, thus resulting in a general free-for-all within the market. The consequence of countertrading a bulk commodity will very often be that the world market price of the product is depressed. Additional supply to an already over-supplied market leads to a reduction in price. Furthermore, the practice of selling countertraded goods to the final buyer at a discount also exerts downward pressure on the price in the market as a whole.

Countertrading bulk commodities can probably only be justified in a limited number of circumstances, for example, if the product is actually sold at the world price and the foreign partner is forced to absorb any extra countertrade costs. Another occasion might be if there is a desire to circumvent national or international rules, but this practice involves its own dangers and may also result in depressing the world price. Another is if a really genuine new market can be found, possibly in another developing country, which would definitely not have purchased the product except within a countertrade transaction; perhaps, also, if the countertrade is organised on a long-term basis whereby the developing country gains the security of a guaranteed outlet. And lastly, perhaps in a distress situation where a developing country has warehouses full of, for example, tobacco, which it is having great difficulty selling and desperately needs fertilisers for field application in a few weeks' time. In such a situation a trading company may be in a position to take the tobacco to pay for the fertiliser in a way that the developing country could definitely not organise for itself in the time available. However, very many countertrade transactions involving bulk commodities do not fall within the circumstances outlined above.

The occasions when developing countries stand to derive much greater benefit occur when they are able to trade 'non-traditional' exports which would otherwise be difficult to sell on the world market. Non-traditional in this context means exports from a particular country which are either new or recently established. Such products may be industrial goods or agricultural products (the latter group including unprocessed items such as fruits and vegetables as well as value-added products such as canned goods, dried fruit, cocoa products, fruit juices and numerous other products). If the developing country in question can sell the products for cash there will almost certainly be no benefit in countertrading, but if the developing country faces difficulties, perhaps because of lack of marketing expertise, then countertrade may offer a beneficial form of trade, particularly if new markets can be opened up. If, however, the products are difficult to sell simply because they are of inferior quality or too highly priced, then they will be useless for conventional trade or countertrade.

There are many difficulties involved in countertrading "non-traditional" products, which the countertrade intermediaries such as trading houses and banks would be the first to point out. Indeed, many developing countries already pay lip service to the idea of countertrading non-traditional exports, but the practical difficulties involved have resulted in relatively few transactions being completed. From the foreign trading partner's point of view the countertrading of non-traditional exports, compared with countertrading bulk commodities, requires even more imagination, ingenuity, effort and risk. In brief, the difficulties include the problem of amassing sufficient value for a countertrade transaction from non-traditional exports, the problem of identifying availability of supply, the problem of price competitiveness, the problem of entering more protected markets, and the problem of higher discounts (disagios) being required for such products.

From the developing country's point of view, countertrading of non-traditional exports offers much greater opportunities for entering genuinely new markets with less risk of depressing prices for the market as a whole. By using outside marketing expertise within a countertrade transaction, a developing country might be enabled to open up a market which could prove to be lucrative for years to come. One danger, however, for the developing country is the possibility of unwittingly encouraging marketing dependence. This might be avoided by including a marketing training component within the overall countertrade deal. It is also important that the developing country closely examines the net benefits of countertrading non-traditional exports. If, for example, the export item has a very high import content, then the benefits of countertrade might be very limited. Some countries, including Jamaica, have operated a system whereby the countertrade value is separated according to the local content and foreign exchange content of the exported product.

Lastly, developing countries must be prepared to give some promotional support (funds for advertising etc.) in appropriate cases to develop markets for non-traditional exports, particularly consumer products.

4.1.3. Weighting of Countertrade Export Values

One approach to the question of bulk commodities versus non-traditional exports in countertrade deals, which has been adopted by a few countries, is that extra "weight" is given to certain non-traditional products and a lower

"weight" is given to bulk commodities or established export items. The rationale for this is that finding markets for bulk commodities and established export items will usually be quite easy for countertrade partners whereas the much more valuable exercise, from the developing country's point of view, of selling value-added and non-traditional exports is likely to be much more difficult. In recognition of this, and to give an incentive to take out the more "difficult" products, a weighting system may be introduced.

For example, if a foreign supplier has a countertrade obligation to take out \$10 million from developing country X, the Government of X might allow the obligation to be fulfilled in the following way:

Product	<u>Invoice Value</u>		<u>Countertrade Value</u>	
	<u>\$ million</u>	<u>Weight</u>	<u>\$ million</u>	
Palm oil	5.0	0.5	2.5	
Cocoa products (not beans)	5.0	0.7	3.5	
Frozen chicken	2.0	1.0	2.0	
Furniture	1.0	1.5	1.5	
Machine tools	0.25	2.0	0.5	
	<u>13.25</u>		<u>10.00</u>	

This system is really only applicable to the counterpurchase or similar types of countertrade.

As noted in Appendix 5, India has adopted a variant of this practice as part of its own counterpurchase scheme.

4.1.4. Destination of Exports

As well as controlling the actual products allowed for countertrade, developing countries can also attempt to control the destinations of those exports. A common approach is to allow a particular product to be countertraded on condition that it is destined for a particular market.

Different approaches are evident on policy matters related to export destinations. Some developing countries insist that their exports must be absorbed within the partner country and will not allow the products to be sold in third countries. This is the general approach adopted in many cases by Malaysia, although it sometimes allows a proportion of the export quantity to be shipped elsewhere.

A somewhat different approach is adopted by Zimbabwe which will allow some commodities to be countertraded with Eastern bloc countries and developing countries but will usually only countertrade with OECD countries on the basis that Zimbabwean exports are not destined for the partner countries, the argument being that if OECD countries want Zimbabwean exports they can pay for them in cash.

The great difficulty in implementing any policies related to export destinations is that the danger exists that export shipments will be redirected or re-exported. Many instances are known where this has happened, involving products exported under bilateral clearing agreements and other types of countertrade. Some developing countries have complained that their exports have been resold for foreign exchange on world markets, thus causing disruption to that developing country's own commercial sales and general disruption to the market.

Various measures can be taken by developing countries to try to protect themselves against these practices but the problem remains fairly intractable. If the countertraded exports are manufactured goods, they are likely to be more difficult to re-export. Also, some degree of protection is offered if exports are shipped directly to end-users. But in many cases the export items are standardised bulk commodities, such as rubber or palm oil, which are difficult to check and monitor. However, some measures can be taken by developing countries and these are outlined in section 10.3.

4.1.5. Concluding Remarks about Exports

Considerable difficulties exist in selecting and implementing a policy concerning the exports allowed for countertrade. The overriding aim must be to achieve incremental exports but the great problem in attempting to calculate "additional sales" is that it is impossible to know with certainty what products would have been sold in other circumstances and, therefore, additionality can only be estimated and never measured.

The broad guidelines suggested here are as follows. The clearest benefits from countertrade are likely to be gained from sales of non-traditional exports but it must be recognised that the countertrade costs are higher and the problems of organising deals are greater. The countertrading of bulk commodities and other traditional exports should be limited to those cases where particular benefits exist. Also, the benefits of short-term increases in market share should be measured against the possibilities of market destabilisation, particularly if, eventually, all suppliers of a given commodity adopt the same practices. The greatest benefits, in terms of achieving additional sales, are likely to be achieved by countertrading with other developing countries which would not otherwise have been able to afford to buy the products with cash; this is one of the major reasons why the fastest rate of growth in future countertrade will probably be in South/South deals. This provides a means of increasing the size, as opposed to the share, of the cake.

A sensible compromise in the debate about traditional and non-traditional exports may be to include both in the same deal. If, for example, a \$5 million deal is being structured, it may make sense to allow the countertrade partner to take out \$4 million in a bulk commodity such as rubber and \$1 million in non-traditional exports such as rubber goods (gloves, etc.). This compromise offers the opportunity of making up a sufficient value for the deal with a bulk commodity while at the same time encouraging the market development of a "new" added value export. Also, as noted in section 4.1.3, this approach may be reinforced by adopting a differential weighting system according to the exports selected.

4.2. Which Products to Import?

4.2.1. Choice of Imports

According to the type of deal or agreement, the products to be imported by developing countries may be specified in the contract or may be outlined in an indicative listing from which actual selections are made prior to trading. The latter is particularly the case with medium-term and longer-term agreements, and also some barter-style deals, which are based on the trading of a "basket" of products.

Whether or not it is in the interests of developing countries to import a basket of products is open to some question. There is an argument which states that developing countries are much better advised to accept one or a few products, or a project (turnkey factory, road, etc.), as the import component because the organisation and execution of such deals can be more easily carried out. The arguments which are sometimes advanced against basket deals are outlined in the following points.

- (i) In the case of high value basket deals the administrative burden on the developing country importing the products is great. All the usual system of import licences and so on will operate and the problems of coordinating a great range of goods within the context of one deal may be more than the government departments can efficiently deal with.
- (ii) In bilateral deals all the import goods will have to be sourced from the partner country, even though some of the products may be unsuitable or higher cost than the goods previously imported from elsewhere. In the case of very high value deals, great pressure may be placed on the business/industrial community to accept products from the bilateral partner which they would much prefer to source from other countries.
- (iii) Dangers exist that the imports within basket deals may be split into too small "parcels", with the result that problems arise over lack of discounts, poor quality control and lack of spare parts and servicing arrangements.

The proponents of basket deals, on the other hand, point out that they offer developing countries a way of coordinating imports while at the same time developing exports. It is also important to distinguish between those which are organised by trading houses or similar organisations and governmental bilateral agreements. In the former case, the trading house is not limited to one country of origin and may source the goods from wherever the developing country wishes, thus overcoming at least one of the disadvantages outlined above.

4.2.2. Quality Control of Imports

Many of the horror stories of countertrade relate to tales of shipments of left-handed gloves, bicycles with a two week life span and so on. Clearly such dangers are apparent in all forms of trade but it is sometimes suggested that the problems are worse in countertrade.

The accusation is sometimes made against Eastern bloc countries, in particular, that their higher quality goods are sold for foreign exchange and the lower quality items are channelled through reciprocal trading agreements. Similar complaints are levelled at some suppliers in OECD countries.

One of the problems in countertrade is that intermediaries in government departments tend to play a much greater role than in conventional trade. As well as additional paperwork and administrative delays there is also the problem of interference in commercial activities. For example, a trading organisation in a developing country may be accustomed to sourcing its imports of raw materials solely on the basis of quality and price competitiveness, but then finds that it is directed towards procuring the materials from one particular country, within the context of a countertrade deal, where it has very little opportunity to check quality standards and related matters to its full satisfaction. However, if the developing country in question has run out of foreign exchange and could not source the raw materials through conventional channels, the "something is better than nothing" argument may be put forward.

Some developing countries have made a determined effort to avoid these pitfalls in their bilateral agreements by sponsoring import missions to the partner country so that representatives of their own commercial sector can visit suppliers in order to view production facilities and discuss requirements. As a second best, importers must make do with receiving specifications and samples prior to placing orders. Inspection agencies might be used to check imports prior to shipment but this involves extra costs. It is also possible, if intermediary organisations - such as trading houses - are involved, that they will assist in these matters. Lastly, product specifications should be set out in the countertrade contract documents.

Chapter 5 PRODUCTION AND INVESTMENT RELATED COUNTERTRADE

5.1. The Problem of Insufficient Availability of Exports

A common problem experienced by many developing countries, and many countries in sub-Saharan Africa in particular, is the lack of availability of products for export other than a very limited range of traditional export items. This is a general trading problem and also arises as a particular difficulty in countertrade matters. This may be illustrated by the example of Nigeria, which has been involved in a number of large oil barter deals and, at one time, suggested that some non-traditional export items might also be sourced by countertraders; but oil accounts for well over 90 per cent of total exports from the country and relatively few alternative products at the requisite quality, quantity and price levels were available for procurement. In many other countries the situation is considerably more difficult, and, therefore, even if the developing country in question is prepared to embrace the idea of countertrade, there may be no suitable products available for export. This has led a number of commentators on the subject to suggest that countertrade for such countries is unlikely to be successful unless it is combined with production/investment programmes. When it is remembered that countertrade is often considered not to be worthwhile at a transaction value of less than \$1 million, it reinforces the point that sufficient export products must be available before countertrade even becomes a realistic policy option.

5.2. Production and Investment Opportunities

We have already noted in Chapter 3 that buy-back and direct offset forms of countertrade involve production and, sometimes, technology transfer elements. There are also, of course, many non-countertrade avenues which can be pursued for encouraging the production and development of export products, including aid programmes, direct investment in overseas subsidiaries by multinational companies, BOT (build, operate, transfer) schemes and so on. In addition to these, and the buy-back and offset forms of countertrade, there are also other countertrade-related opportunities.

An idea that is gradually emerging is that countertrade partners, very often Western multinational companies, will assist a country (either through the rehabilitation of an existing project or the creation of a new project) to produce exportable goods, the foreign exchange revenues of which will be allocated to the import of the multinational's products. The new or rehabilitated project may have no connection at all with the usual business of the multinational company.

To give a hypothetical example, a Western vehicle manufacturer wants to export trucks to African country X which desperately needs the trucks but has neither foreign exchange nor access to credit to pay for them. Country X does not even have exportable goods available which it can offer for countertrade. The vehicle manufacturer, therefore, agrees to provide investment funds and some technical assistance to rehabilitate an oil palm processing project which was lying dormant, on condition that the government of Country X enters an agreement whereby some of the foreign exchange funds earned from palm oil exports enter an escrow account held in London and are used to pay for Country

X's imports of trucks. The arrangement is beneficial to all parties concerned because the vehicle manufacturer obtains export orders it would not otherwise have obtained and Country X receives trucks it could not otherwise have afforded as well as the employment and other benefits of a rehabilitated project.

There are only a limited number of examples of such ideas being put into practice but a few are given below. The examples not only include cases resulting in the production of export commodities but also export services and some instances of investment in trading/procurement organisations. In short, they include any countertrade deal which actually involves the foreign partner in contributing, through investment or other means, to the exporting operation of the developing country partner.

- (i) In 1984, Motors Trading, the countertrading arm of General Motors, helped to establish a data processing facility in Jamaica by installing a computer and employing local workers at a considerably lower wage rate than equivalent American operators. Raw data were flown down from the USA, processed and returned. The purpose of the exercise was to earn foreign exchange because Jamaica, at that time, faced a problem in paying for General Motors' vehicles in hard currency. The arrangement worked on the basis that the foreign exchange earnings from the data processing company were recorded in an evidence account and were allocated to the import of vehicles.
- (ii) The Ford Tractor Company has engaged in imaginative countertrade deals in a number of countries. One particular deal involves a South American country which had no foreign exchange to pay for tractors and no export products to offer for countertrade. Ford Tractor searched for opportunities and found that oranges and other citrus fruits were being grown in the country but were only sold on the domestic market. The company used its contacts in North America to find export markets and also put in some technical assistance to improve standards of packaging and presentation. After some successful trial shipments, the Ford dealer in the country invested in packaging machinery, recruited staff and organised supply from citrus growers on a contract basis. The foreign exchange revenues are used to fund the import of tractors.

Other known examples include a major international chemical company which has invested in cotton by-products in an African country in order to supply agricultural chemicals in return, and an international commodity trading house which invested in food (frogs' legs) exporting facilities in Bangladesh in return for supplying various commodities.

5.3. Difficulties

Although the ideas outlined in this chapter have many points to recommend them, there are also a number of associated problems and pitfalls, both from the point of view of the foreign partner and the developing country.

The developing country will gain nothing from such schemes if the production/investment project would have happened in any case. This would only result in the foreign exchange earnings of the project being unnecessarily tied. The only real benefit arises if the production/investment project would not have happened without the countertrade deal in question and can be shown, therefore, to have resulted in incremental exports. Also, it is important that the project chosen should have a low foreign exchange input component; there is clearly little point in developing countries pursuing such schemes if the net earnings of foreign exchange are low.

From the point of view of the foreign partner, such schemes are likely to be viewed as highly risky. In the first place, the time period for making any profit out of the deal may be quite long. (This is one reason why foreign companies are more likely to be attracted to low cost/fast response schemes, such as rehabilitation projects or the establishment of procurement/trading companies, rather than embarking on high cost production projects.) Secondly, it often (but not necessarily) involves entering an area of business in which the company has no experience. Thirdly, the project selected for the production/investment component must be highly profitable in order both to repay the investment and to have foreign exchange left over for countertrade purposes. Fourthly, the sort of countries where these schemes are likely to be the most necessary are also the sort of countries for which it is difficult to obtain loans and credit insurance cover. In fact, it has often been suggested, and there are some signs that progress is being made, that aid agencies could be particularly instrumental in the supply of loans and credit insurance cover if they were prepared to take a more enlightened view of schemes involving countertrade.

It is difficult for developing countries to develop a general policy on production and investment-related countertrade because each case needs to be judged on its merits. However, it is possible for developing country governments to at least express a willingness to consider suggestions for such schemes so that the onus is put on foreign partners to draw up proposals.

Chapter 6 COUNTERTRADE COSTS

6.1. Introduction

It should be emphasised that countertrade is very often a high cost way of trading compared with conventional trade, and it is important that the costs and benefits of particular deals should be carefully weighed. It is sometimes argued that countertrade involves no incremental costs over and above the costs involved in conventional trade. Although this may be true in particular cases, it is important to know which additional costs may be incurred through countertrade so that checks can be made.

6.2. The Incremental Costs of Countertrade

The incremental costs of countertrade which may be additional to those incurred in conventional trade can take many direct or indirect forms. A common difficulty is the so-called lack of "transparency" of countertrade deals, which means that actual prices and costs are often not easily identifiable. A list is provided below of some of the possible costs which may arise in particular cases.

- (i) Disagios (discounts) often have to be offered to the final buyers of countertraded exports in order to provide a purchasing incentive. In the case of traditional or long-established export items such as coffee, tobacco or metals, the discount offered to the final buyer may be very low or nil (in other words, sold at the prevailing world price), but in the case of non-traditional items or "difficult-to-move" exports the percentage figure is likely to be much higher. Discounts of up to 20 per cent or more may be required in order to dispose of some manufactured products, handicrafts or other items. Very often the developing country concerned will have no knowledge of the level of the disagios because the trading part of the deal is in the hands of intermediaries.
- (ii) Lower export prices may be offered by some developing countries. It is usual for developing country exports to be invoiced at the prevailing world price for the product in question. Indeed, the countertrade contract may well contain some formula relating to the world price on a particular market, such as the London commodity market, on the day of shipment. However, there may be occasions when the developing country concerned, in realisation of difficult market conditions for a particular product, may be prepared to accept a lower contract price in order to advance a countertrade deal.
- (iii) Higher import prices are the usual way in which developing countries "pay" countertrade costs. Very often the disagios and other costs are loaded on to the price of the import. It is common, for example, for the exports from the developing country to be priced at the world price level, but a higher price is paid for the countertraded imports in order to cover all the incremental countertrade costs. A possible alternative is for the foreign partner to absorb some or all of the costs.

- (iv) Miscellaneous costs are usually incurred at various points in a countertrade deal. These may be incurred by various parties within the deal but, as noted in (iii), it is common practice for these costs to be passed on in the form of higher import prices for the developing country. The incremental costs which may be incurred by the foreign partner or by intermediaries include banking charges for special services, legal fees, consultancy fees and commissions paid to trading houses or other intermediaries. Within the developing country there may be similar expenses.
- (v) Financing costs may often be incurred by developing countries, particularly for barter-style deals. These involve financing the interval between the export and the import. This can be an extremely important cost item; we know of one parastatal trading organisation in an African country, which is involved in many barter deals, which regularly has 50 per cent of its current assets tied up in countertrade arrangements and which pays substantial interest charges to cover the interval between its own export and the eventual receipt of funds after the import products have been received in the country. This is illustrated in the example of a deal using an escrow account in section 3.4.

In addition to the costs we have described, there are also many indirect or hidden costs of countertrade which should not be forgotten. There are costs involved in establishing and maintaining special units or committees. On the export side, a number of possible hidden costs relating to the displacement of commercial sales have already been noted in section 4.1. On the import side, there may be hidden costs involved in the loss of purchasing flexibility that results from engaging in reciprocal trading arrangements. For example, a country that enters a medium or long-term agreement to import oil as part of a countertrade deal may pay "the world price" for oil at that time but the flexibility to make cheaper purchases, perhaps on the Rotterdam spot market, is effectively removed if all the country's requirements are being supplied through the barter deal. Also, on occasions, there are the hidden costs of importing second level technology. Finally, there are all the costs involved in the time and effort of dealing with the large number of countertrade proposals which do not progress beyond the discussion and negotiation stages.

6.3. Ways of Limiting Countertrade Costs

Looked at from the point of view of developing countries, there are a number of ways of attempting to limit or eliminate incremental countertrade costs. There is considerable overlap between the points mentioned below.

- (i) It is sometimes possible to negotiate deals where incremental countertrade costs are absorbed by the foreign partner, particularly if that foreign partner is fairly desperate to obtain the contract in question. An occasion is known, for example, where a Western tractor manufacturer faced the possible closure of one of its plants if a particular order was not won and, therefore, was prepared to sell tractors at the usual "conventional trade" price and absorbed the countertrade costs involved in the deal by reducing margins.

- (ii) Some countries, such as Malaysia and India, have introduced a non-mandatory counterpurchase system based on tendering for contracts, the argument being that the authorities can choose the most advantageous bid, with or without countertrade, thereby making it unlikely that those which include countertrade in their bids will heavily load their prices with incremental countertrade costs. However, since the foreign suppliers who do offer countertrade are likely to incur some extra costs, it is also likely that they will try to include at least some of those costs in their bid.
- (iii) Careful attention should always be paid to the pricing of both the export and, particularly, the import under countertrade deals. This point is repeated in section 10.2.
- (iv) The level of disagios can be kept quite low by concentrating on the export of traditional export items. It is often claimed that basic commodities can be included in countertrade deals at no discount to the final purchaser, whereas quite large discounts may be required for selling non-traditional exports. (The counter-arguments relating to the advantages of countertrading non-traditional items and the disadvantages of countertrading basic commodities were presented in section 4.1.)
- (v) Some opportunities for raising money within countertrade deals may arise which can be used to offset incremental countertrade costs. For example, interest is paid on the funds held in escrow accounts and partners in developing countries should be sure that they receive their full entitlement in such cases.
- (vi) Countertrade costs are generally lower for deals in developing countries which are well organised for countertrade (as described in Chapter 8) and much higher in those countries which are badly organised. If the system works smoothly it is likely that the countertrade costs for all parties will be reduced.

6.4. Costs and Benefits

In nearly all cases, countertrade involves incremental costs which must be borne by somebody within the transaction, and in most cases the developing country bears at least some of the cost. Therefore, it is necessary to check whether the benefits of the deal outweigh the costs. Non-countertrade alternatives should always be assessed. For example, it may be economically more efficient to sell exports at a discount through conventional trade, and retain the freedom to purchase imports from whichever source is the most advantageous, rather than engage in countertrade.

On the other hand, there will almost certainly be occasions when the incremental countertrade costs are considered to be worthwhile. The attractions of selling an export and receiving an import with no net expenditure of foreign exchange may be considerable.

Chapter 7 CONTRACTS, CONTRACTUAL ISSUES AND FINANCIAL MECHANISMS

7.1. Introduction

As a part of any conventional trade agreement it is usually necessary to produce a contract, outlining volumes of products, price, delivery period and so on. Normally such contracts are limited to one document, such as a sale and purchase contract.

In the case of reciprocal trade arrangements the number of contracts can vary tremendously, from one, up to any number, depending on the type of deal and the number of parties involved in the total transaction. The potential problems and time involved in negotiating and drawing up these contracts can be quite considerable and can add to the cost of the transaction as a result. It is in the interest of all parties to ensure that the terms of the deal are laid down in the various contracts in order to facilitate the efficient operation and completion of the deal. Therefore it is of great importance to produce contracts that are clear and concise. Expert advice and assistance from external sources may be required, (refer to Chapter 9).

7.2. Forms of Contract for Different Types of Deal

The contract requirements depend largely on the nature of the proposed deal. The wide range of countertrade transactions that exist (see Chapter 3) create a need for varying forms of contracts. In this section we deal with various basic models of countertrade such as barter, counterpurchase and buy-back, each of which necessitates very different contractual forms. There are also a vast number of other deals that do not fit neatly into any of these categories but may include some common elements. This is true, for example, of some of the state trading agreements. In the following sub-sections we make some generalisations (there are no rules) about forms of contract for barter and counterpurchase and similar deals. A separate section on buy-back contracts is provided in section 7.5.

The forms of contract for barter range from fairly broad agreements at government level to concisely worded documents outlining the exact terms of a transaction. In many cases there may be a broad agreement at government level which lays open opportunities for parties within each country to trade with one another. Under such circumstances, the only documentation for the trading part of the barter may consist of a series of telexes between the trading partners, often using an escrow account. As a result, no simple model or format exists for barter contracts. However, where there is a formal contractual arrangement, it can often be contained in a single contract.

State Trading Arrangements between governments, parastatal organisations and/or foreign trading houses are also based on a single contractual agreement, normally drawn up by the developing country government. An example of such an agreement can be found in Appendix 2.

Buy-back arrangements and counterpurchase deals often require the use of more than one contract between the principal parties, either because there are more than two principals, or to provide specifications for separate contractual elements.

7.3. Single and Multiple Contracts

There are advantages and disadvantages in using either single or multiple contracts, depending on the type of deal and the parties involved. There is no value in complicating proceedings by using multiple contracts when a single one will do.

Many foreign partners, particularly those inexperienced in countertrade, or those wishing to assign obligations to third parties, may insist upon a more formalised approach which will reduce the risk of failure, non-performance or non-payment. In such cases it is usual for two sale and purchase contracts to be concluded by the principals. These determine the conditions of the trade flows. Normally a third countertrade contract forms the basis of a linkage between the two sale and purchase contracts.

There are a number of reasons why foreign partners may wish to use multiple contracts.

- Export credit guarantee facilities from organisations such as ECGD in the UK may only be available if contracts are separated.
- Failure to fulfil one element of the transaction does not necessarily nullify the original export contract.
- Alterations in contractual terms can be more easily incorporated.

Multiple contracts may consist of:-

- i) a sale and purchase contract for the imported goods
- ii) a linkage or framework contract
- iii) sale and purchase contract/s for the exported goods.

i) Sale and Purchase Contract for the Imported Goods

This contract contains the details of the specific performance of the foreign supplier, including the nature and value of goods and/or services, delivery, etc. and the corresponding payment terms by the recipient, usually quoted in foreign exchange.

ii) Linkage Contract

This contract is between the two signatories to the sales contract and concerns balancing, in whole or in part, the trade flows.

The document may be very specific in its terms and commitments or it may take the form of a non-binding "letter of intent", where the first party offers its "best efforts" to purchase goods on a countertrade basis. Generally the specific approach is adopted, as this provides a more rigid framework which determines the actual percentage of the original sales contract that should be reciprocal.

iii) Other Sale and Purchase Contracts for the Exported Goods

These are the one or more sale and purchase contracts which are concerned with the discharge of the counterpurchase obligation.

7.4. The Content of Contracts

This sub-section deals with major contractual issues, some of which are common to all forms of countertrade, while others are specific to particular types. Emphasis is placed on those parts of contracts which deal with the reciprocal trade aspects; in other words, in the case of counterpurchase, with the linkage contract rather than the sale and purchase contracts. For the sake of clarity we have described many of the issues in terms of a counterpurchase transaction, but many of these issues are equally applicable to barter-style and various other forms of countertrade. Points (i) - (xiii) below describe many of the elements to be included in a countertrade contract but the list is by no means exhaustive and simply provides a set of indicators. Some examples of contracts are provided in Appendix 2.

- (i) Commitment to countertrade by two principals.
- (ii) Assignment to third parties.
- (iii) Proportion of countertrade.
- (iv) Products available for countertrade.
- (v) Verification of allowable exports.
- (vi) Product specifications.
- (vii) Price of countertrade products.
- (viii) Resale of countertraded exports.
- (ix) Payment terms and conditions.
- (x) Timing.
- (xi) Monitoring trade flows.
- (xii) Penalties.
- (xiii) Arbitration and force majeure.

N.B. The terms "import" and "export" are used from the perspective of the developing country.

(i) Commitment to Countertrade

Once countertrade has been accepted in principle by both parties and has approval to proceed, the countertrade contract should contain, in its early stages, a clear commitment by the foreign partner to purchase the products specified in the contract.

(ii) Assignment to Third Parties

Under certain circumstances, for example, if the foreign partner is either unable to absorb the goods in-house or does not have the relevant expertise to sell them, and with the agreement of the two principal parties, it is common practice to assign the counterpurchase responsibility to a third party, normally a trading house.

If all or part of the countertrade products are to be handled by a third party, there should be a clause within the contract to this effect. If, on the other hand, no third party involvement is allowed, this should be stipulated.

If assignment is agreed, there should also be some indication of the obligations of the foreign partner with respect to fulfilment of the counterpurchase. For example, it may be that all obligations are transferred to the assignee; conversely, they may remain the total responsibility of the foreign partner. Sometimes both parties are obliged to share responsibility for fulfilment of countertrade obligations. The contract should make it clear whether the developing country partner has recourse to the foreign partner, the assignee, or both.

It is important that the counterpurchase contract should include a clause committing the assignee to be bound by its provisions with regard to the assigned portion of the counterpurchases. Failure to obtain such a commitment could lead to non-fulfilment of the contract, or to the sale of countertrade products to markets specifically excluded in the contract.

(iii) Proportion of Countertrade

The countertrade contract must contain some definition of the value of the countertrade commitment. There are two ways in which this may be achieved. The first is to specify the actual countertrade value in monetary terms. This may be less than, equivalent to, or more than the value of the original purchases. The alternative is to specify the level of counterpurchases as a percentage of the value of the goods sold through the original sales contract. The latter may be used when the final price of the imported goods has not been settled.

In either case, the form of payment should also be stipulated. If the values specified are in local currencies, agreement on an exchange rate should be written into the contract.

When the countertrade obligation is expressed as a percentage of the original purchase value, there should be no ambiguity regarding the original price of the imported product/s.

(iv) Products Available for Countertrade

A countertrade contract should indicate the products available for export from the developing country. This may be expressed in the form of particular product/s (with quantities and/or values specified) or as a range of products from which a particular selection may be made. As a variant on the latter, ceiling values may be attached to each of the products listed (this approach is adopted in the STA presented in Appendix 2).

An alternative method is to specify the source of the products, as in the following cases:

- any products produced by the importing agency (whether private sector, parastatal or otherwise)
- any products produced by the importing agency or its subsidiaries
- any products that come within the auspices of a specific ministry (ministries) or other authority (authorities)
- products from mixed sources as specified, e.g. percentage from importer and percentage from other specific sources.

A further alternative approach is to specify products which are not allowed. For example, it may be possible to export all products except those quoted on commodity exchanges.

It is often wise to include a disclaimer such as: "subject to the approval of the competent exporter and relevant ministry". This then puts the onus of product procurement on to the foreign partner or assignee and reduces arguments regarding non-delivery of products between the principal parties.

The foreign partner may insist upon a greater commitment by its developing country partner to procure products for countertrade, particularly when there are likely to be product shortages. Under such circumstances, the contract should specify the degree of involvement of the developing country party. The level of such a commitment will probably fall between the following two extremes:

- the developing country partner guaranteeing that the products specified will be available at the time of performance
- the developing country partner offering assistance on a best efforts basis to help with product procurement.

Depending on the regulations within each country, specific authorisation from relevant government bodies may be required for specific products to be used in countertrade. In such cases a clause describing these conditions and/or restrictions, and which party shall be responsible for seeking authorisation, should be included in the countertrade contract.

(v) Verification of Allowable Exports

It should be made clear which products exported by the foreign partner are regarded as contributing to his countertrade obligations. This is particularly true of partners that have traditionally traded with the developing country in question. As a means of verifying their countertrade obligations, most partners will insist that each purchase contract entered into within the framework of the countertrade contract is recognised. Consequently, they may insist that the countertrade contract stipulates that each purchase contract must explicitly refer to the countertrade contract. In this way, purchases can be easily monitored and accounted against the countertrade obligation.

(vi) Product Specification

It is in the interest of all parties that the products traded are of the specifications laid down in the purchase and sales contracts in terms of quality and quantity. It is often advisable to include a clause in the countertrade contract reinforcing this issue by stating that the products must conform to the standards specified in the individual purchase and sale

contracts. This can be particularly advantageous for the foreign partner who assigns his obligation to a third party.

(vii) The Price of the Products

It is usual for prices in countertrade contracts to be expressed in terms of prices prevailing at the time the contract is activated rather than in absolute terms. For example, the price of raw materials or commodities may be fixed according to the price at the time of shipment on a specified commodity market, or reference may be made to prices for similar products in the export market destination.

Where only the two principals are involved, i.e. no third party assignees are to be employed, the prices may be stipulated in the countertrade contract. Where a third party assignee is concerned it is unlikely that the assignee will agree to such terms, and will insist on some involvement in price negotiations.

The parties should agree in the countertrade contract on the currency in which the countertraded products should be quoted and paid.

In cases where the prices of countertrade products are volatile or, perhaps, where the deal is operative over a long period, an agreement to employ price arbitration may be included in the contract.

Price-cutting in order to make countertrade products more attractive can be dangerous. Not only does this practice make the products imported through countertrade appear expensive, but there have been accusations of dumping in some cases, where products which were traditionally difficult to sell have been exported via countertrade at a discount, causing disruption in the target markets.

(viii) Resale of Countertraded Exports

If the developing country wishes to prohibit the resale of its exports to third countries, this must be explicitly stated in the contract. In other cases, resale may be permitted in certain circumstances which should be specified, or, alternatively, any particular restrictions on resale may be included.

(ix) Payment Terms and Conditions

The types of payment terms and conditions which may be appropriate include:-

- how and against what documents payment will be effected,
- whether letters of credit or other documentation will have to be arranged by the buyers,
- which parties will be responsible for the costs involved in the payment arrangements,
- agreement on an escrow or trust account arrangement.

(x) Timing

Establishment of a time frame within which the foreign partner should fulfil his obligations will be based upon factors such as the size of the deal; the time required to procure the product(s); the time required to obtain government approval and documentation; and the time required for arranging financing.

The start date for fulfilment of the countertrade may be stipulated in the contract. In the case of large deals it may be appropriate to execute obligations in stages. For example, a specific percentage of the total value of the countertrade deal may be completed over a twelve month period, with the remainder to be concluded in stages within a specified period. In such cases, "completion" may have to be defined specifically within the countertrade contract. It could mean that goods to the value of the countertrade element have been ordered or even procured, or it could mean that they have been procured and paid for. Partners may be unwilling to accept a clause of fulfilment that stipulates that payment has to be made within a specified time period, as factors outside their control could cause delays in the procurement processes.

(xi) Monitoring Trade Flows

Methods of monitoring trade flows within countertrade deals can vary tremendously, from simple book entries to more formalised approaches. An evidence account (as described in section 7.6.4) is a simple technique for recording each side's performance under the terms of the contract.

Another possible method is to establish a committee made up of equal numbers of representatives from each side, whose role is to supervise the execution of the contract and alterations, if any, to the contract terms.

(xii) Penalties

Penalty clauses are quite a common feature of counterpurchase contracts (except in those cases where the countertrade obligation is described in terms of a "best efforts" basis).

Penalties should be set out in the contract and are usually expressed in the form of a percentage, for example, 25 per cent, of the unfulfilled part of the counterpurchase commitment. Rates of penalty may vary from a few per cent to 100 per cent or more.

Should non-compliance of the contractual terms be a result of a failure by the penalty-imposing party to fulfil its obligations, then it has no basis for a claim under normal contract law procedures. Eventualities that may release the foreign partner from his commitments include, for example, failure by the developing country agent to procure products as agreed in the contract.

In some cases, a bank guarantee is requested by the developing country party to assure the payment of a penalty. In this case the countertrade contract should specify the amount and type of the bank guarantee and the bank from which it should be obtained.

In most cases, payment of a penalty would be regarded as releasing the foreign partner from his contractual obligations and most countertrade partners are likely to insist that the contract specifies this. However, this might not be the intention of the developing country.

(xiii) Arbitration and Force Majeure

In the event of a dispute between the principal parties over any aspect of contract fulfilment, it may be necessary to resort to arbitration. This is a common practice in international trade in cases where a dispute cannot reasonably be settled by the contract signatories.

The arbitration board may be made up of a committee approved by both parties, although reaching agreement on committee composition and on which national laws to use may cause problems. The alternative is to use a recognised arbitrator such as the International Chamber of Commerce or, if one of the parties is a government department, the International Board of Arbitration. A standard clause to this effect should be included in the contract.

e.g. "All controversies arising from the present contract shall be irrevocably settled in accordance with the regulations of the Board of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators nominated in accordance with the said regulations."

Whichever form of arbitration is agreed, it may be necessary to stipulate the place of arbitration, the composition of the committee and/or number of arbitrators, and the commercial laws that are to be applied by the committee.

As in all international trade, the use of a clause of force majeure is likely to be insisted upon by the foreign partner to provide some protection against a range of potential difficulties. The actual wording of such a clause will depend upon the laws of the partner countries and should be negotiated prior to signing the contract.

7.5. Buy-back Contracts

The buy-back form of countertrade as defined in Chapter 3 is a special case. In many respects the procedures for a counterpurchase transaction are also relevant to buy-back. However, there are other complications, most of which relate to financing such deals. This can involve a number of parties such as commercial banks, export credit guarantee agencies, the World Bank and other suppliers of loan funds.

There are usually two principal trade contracts and one financing contract.

- (i) The Supply Contract - covering supply of equipment, know-how and licences where necessary.
- (ii) Credit Agreement - defining financing arrangements between importer's bank and supply consortia's bank.
- (iii) The Buy-back Contract.

(i) The Supply Contract

The initial supply contract consists of details regarding technical aspects of the plant and processing machinery to be supplied, as well as outlining some of the commercial and financial aspects of the supply transaction. Signatories to this contract include:

- supplier of the plant
- other suppliers of equipment for the plant
- the licensor, if different from above
- the importer of the plant and equipment
- the importer of the licence, if different.

In general, the conditions applying to a supply contract within a buy-back deal are the same as those applying to a normal trade transaction.

(ii) Credit Agreement

The credit agreement will usually be of a conventional type. On occasions, aid funds may be involved. In practice, the World Bank and other similar organisations may be more reluctant to assist in financing countertrade linked projects. However, it may be emphasised by the recipient country that the project will not only lead to industrial development but is also backed by a guaranteed export market.

(iii) The Buy-back Contract

The buy-back contract is signed by the buyer of the resultant products and the organisation or agent exporting those products. These organisations may or may not be the original vendor and recipient of the plant and other inputs, but assignees acting on their behalf.

The key issues that any purchaser of buy-back products is likely to raise during negotiations and later stipulate within the contract are set out below.

- The quality of the resultant product and verification that the plant supplier's specifications and recommendations have been complied with.
- The restrictions, if any, on the final destination of the buy-back products.
- Arrangements for deciding prices and quantities exported (a partner may agree to purchase products up to a fixed value for the year, or a percentage of the total supply contract cost).
- Agreement on who pays shipping costs.
- Penalties to be imposed by the buyer if there are delays in the delivery of buy-back products.
- Other issues concerning quality control mechanisms for the buy-back products, clauses governing arbitration, force majeure and the commercial laws to be used in the contracts.

Within the buy-back contract the following details must be clearly stipulated:

- value of buy-back to be sold
- period over which transaction should be completed
- definition of where products can be marketed
- mechanism for pricing products and circumstances under which these may change
- penalties for poor quality products, delays or non-fulfilment of the obligation to supply.

7.6. Financial Aspects of Countertrade

In some instances, the financial aspects of countertrade deals are no different from orthodox export/import transactions. However, in many cases, due, for example, to the reciprocal nature of the trade, foreign exchange shortages, the reluctance of financial institutions to offer credit and insurance cover, or for other reasons, special arrangements are required.

Most financial arrangements have to be "tailor-made" for particular deals. When dealing with the more complicated transactions, it is of particular importance that specialist expert advice should be sought.

It is impossible to give guidelines that should be followed in all circumstances but the following sub-sections outline the most important financial mechanisms which are available for countertrade deals.

7.6.1. Bank Guarantee

Bank guarantees may be used as an assurance to countertrade partners that payment will be forthcoming. For example, a developing country exporter may obtain a letter of guarantee from his bank in favour of a supplier company. The letter of guarantee ensures that the supplier will be paid in cash for any outstanding imbalance at the end of the contractual time period. In this way, the supplier is paid in cash if the full value of the transaction has not been supplied in goods from the developing country. Initially, the letter of guarantee would be for the full value of the imported goods but it decreases as exports are shipped and documentary evidence of despatch is received by the bank. This technique can only be used when foreign exchange is available to back the letter of guarantee.

7.6.2. Escrow Account

Escrow accounts are used for the funds flow management of many countertrade deals and they offer specific guarantees to the parties to the escrow agreement. In order to provide the maximum security and protection against diversion of funds or other problems it is usual for the account to be held in a commercial bank in a hard currency country. The role of the bank is to administer the account and to ensure that it contains adequate funds to cover the trade transactions as they occur. It must be remembered that monies in an escrow account cannot be paid out for purposes other than those provided for in the escrow agreement.

There are no hard and fast rules, or even a comprehensive base, from which to start negotiations on establishing escrows. Each deal using these accounts is different, therefore each requires to be discussed and formulated according to the terms and nature of the countertrade deal.

When considering the use of escrows for countertrade there are generally three main considerations.

i) The Need for the Escrow

- Are alternative financial mechanisms available?
- Is it feasible to hold currency in off-shore accounts?
- Who will manage the account?

ii) Who Will be Party to the Agreement?

- Parties to the agreement will include the commercial bank holding the account, the supplier company and the importer in the developing country.

Others involved in the negotiations of the agreement may include:

- The Central Bank, particularly if exchange control regulations are in force limiting or prohibiting the holding of export revenues off-shore.
- The developing country exporter, if different from the importer.
- Any intermediary or third party traders.

In practice, the smaller the number of parties involved, the more likely is a successful outcome to negotiations.

iii) Negotiations and Agreement Terms

An escrow account is usually in the name of the developing country bank. The agreement should cover the rights and obligations of the various parties to the deal. The wording of such agreements is subject to negotiation and the facts relevant to each case. Initial negotiations may be followed by discussion of draft or working papers which will later form the framework of the escrow agreement. The major issues covered normally include:

- Description of transaction.
- Description and mechanics of the financial flows.
- Mechanism for initial funding, i.e. from foreign exchange reserves or from revenue raised through exports.
- Percentage of the total transaction value that will be initially paid into the account, which will depend on the size of the deal, the manner in which imports are delivered (i.e. in stages or all at once) and the type of products that are to be exported.
- The amount of freedom the developing country has in controlling the account, and the mechanism for altering agreement terms should this be deemed necessary.
- Agreement on timing and mechanism for either paying into the account, or having funds released from the account and the documentation required for drawing from the account.

- Whether or not part-drawings are allowed.
- The role of the commercial bank, which may vary from simple account management to covering imbalances if the account falls into short-term deficit.
- Disposal of any residual balance.
- How and to whom interest in the account should be made payable.
- Time limit for execution of transaction.
- Laws governing the agreement and procedures for communication.
- Clauses covering arbitration, force majeure, etc.
- The provisions required by the bank in order to remove the bank's risk if one party fails to fulfil its payment obligations to the account.

In practice, escrow contracts can take considerable time to negotiate and may produce very lengthy documents as a result.

An example of the operation of an escrow account in a barter style deal is given in section 3.4.

7.6.3. Trust Account

The mechanism of the trust account is similar to that of the escrow. The principal difference is that the trust account is defined according to British law, under the Trust Act, and therefore a full agreement, as in the case of an escrow agreement, need not be drawn up for each new transaction. Any bank acting through its British subsidiary, or any country with a system based on British law, can use this technique.

According to the Trust Act:

- The trust deed cannot be cancelled without the prior approval of the beneficiary (foreign partner).
- The funds in the account are protected against arrest.
- The funds can generate interest in favour of the settlor (developing country).

The trust deed is signed with the settlor and defines:

- Receipt and payment of funds out of the trust account.
- The rate and payment of interest.
- Termination of the agreement.

From the above, the beneficiary is assured that funds are available exclusively for himself.

The escrow account, on the other hand, is not ruled by a specific law, therefore the contractual documents relating to it need to be exhaustive and include a formal pledging of the funds in favour of the beneficiary in order to protect them against arrest.

7.6.4. Evidence Account

An evidence account is a mechanism enabling each side in a countertrade transaction to record product movements and payments. The account is normally held in a Central Bank or other bank as agreed by the partners.

Evidence accounts are not clearing mechanisms where sales in both directions offset one another. Each purchase transaction has to be accompanied by payment. The function of the account is to allow central co-ordination of payments and to act as a means of monitoring the trade flows. Evidence accounts are not required to balance in the short term, although limits may be set on the level of imbalances. In the longer term, towards the end of the transaction period, there may be a requirement for the account to balance, or provision for settling imbalances in foreign exchange may be made.

The use of evidence accounts is normally agreed between parties with well established trade links and a desire to maintain or increase mutual trade in the long-term. The evidence account reduces the administrative problems, through central co-ordination, of payments to and from many importers and exporters.

7.6.5. Interbank Agreement

Within the framework of many countertrade transactions, each trading party will normally be represented by a bank. In the case of many developing countries this could be the Central Bank. The role of the banks is to co-ordinate payments against documentary evidence of actual product flows. Depending on the form of countertrade and the principal parties involved, the banks may liaise to produce an Interbank Agreement.

These agreements describe the provisions for the release of funds, the time frame for payment and identify the documents against which payment will be made. Such agreements accompany long-term trade agreements, often established at government level, such as State Trading Agreements, an example of which is given in Appendix 2.

Chapter 8 ORGANISATIONAL AND OPERATIONAL POLICY OPTIONS FOR DEVELOPING COUNTRIES

8.1. Introduction

The topic for this section concerns the question - how should developing countries organise themselves for countertrade?

Some governments take virtually no action on policy and organisational questions and this creates confusion both in their own countries and amongst potential foreign countertrade partners. Many developing countries have expressed a general willingness to consider countertrade, without creating a structure through which potential deals may be negotiated, agreed and implemented.

A particular problem concerns the location of decision-making power within the government sector in a particular country on countertrade matters. In other words - who makes the decisions: the Ministry of Trade, the Ministry of Finance, the Central Bank, some other Ministry, or a combination of all of them?

Without clear policy guidelines on such questions, and without an organisational system for countertrade being created, it is often necessary to "reinvent the wheel" for every potential deal, resulting in confusion and delay for all concerned. Very often potential foreign countertrade partners will not even contemplate initiating countertrade discussions unless the policy guidelines and the mechanism for implementing countertrade are known.

8.2. Countertrade Policy and Implementation Procedures

Presumably, the first step for any government in relation to countertrade is to consider the macroeconomic arguments. Having done that, and if the result is that countertrade is to be encouraged, or at least allowed, it is necessary to start building a policy framework within which countertrade can effectively function. Various matters, including the political orientation of the government, play a part in policy development, but these are questions affecting individual governments whereas the issues raised below are common to all situations.

The common components of countertrade policy and implementation procedures are discussed under the following points.

- (i) A government should establish policy guidelines for countertrade, at least giving some broad outline of policy. Some developing countries have published guidelines.

Example

The Ministry of Trade and Industry of Malaysia has published two short booklets entitled "Countertrade Anyone?" and "Countertrade in Government Procurement" which set out the Malaysian position on countertrade.

- (ii) A government may announce, publish or make known a range of other information on countertrade which supplements the broad outline of policy already mentioned. Such additional information may be changed at intervals according to economic or other circumstances.

Example

Various countries have lists of products, either for export or for import, which may be allowed for countertrade. Further information may be provided in particular cases; for example, the Government of Zimbabwe sometimes makes announcements to the Zimbabwean industrial sector of import opportunities that may be available through countertrade deals.

- (iii) A government should make arrangements to establish the required government machinery for the consideration of proposed deals. Without a focal point within the government sector which is charged with the responsibility of receiving and considering countertrade proposals, it is very difficult for internal or external parties, particularly in the case of proposals for ad hoc deals, to make any progress.

Example

Sometimes a particular unit within a Ministry may be given this responsibility, such as Unit Khas Countertrade in the Ministry of Trade and Industry of Malaysia, or a special committee composed of representatives of various Ministries may be created, such as the Special Trading Arrangements Committee (STAC) of Zimbabwe (refer to Appendix 5).

- (iv) A government should clearly locate decision-making power for countertrade. Very often the unit or committee which has the responsibility for receiving and considering proposals does not have the power to make decisions.

Example

The STAC of Zimbabwe makes recommendations to the Permanent Secretary and the Minister of Trade and Commerce who make the final decisions on whether or not to proceed with particular deals.

- (v) Prior to embarking on a policy of encouraging countertrade, a government should take action to overcome known problems which will hinder, or sometimes make impossible, the successful negotiation and completion of deals.

Example

A common problem in many developing countries is that exchange control regulations require full remittance of export earnings in foreign exchange to the Central Bank. This prohibits, for example, holding funds offshore in an escrow account, and, if this facility is required, government action is needed to make provision for allowing such operations in particular cases.

(vi) A government should make known which organisations are approved for countertrade implementation. This may involve identifying particular parastatal organisations or, instead, may be based on giving authority to the private sector, within the policy established by government, to proceed with countertrade. It is usual to make a clear separation between policy and implementation. Policy is seen to be the responsibility of government, or a particular government department, whereas responsibility for the implementation of deals, particularly the trading aspects, is usually placed in the hands of particular parastatal organisations or the private sector.

Example

The implementation of countertrade deals in India is usually placed in the hands of a parastatal organisation, either the State Trading Corporation of India (STC) or the Minerals and Metals Trading Corporation of India (MMTC).

Those developing countries which lack either a suitable parastatal organisation or private sector companies with the appropriate countertrade experience are likely to have to rely more heavily on the services of international trading companies.

Some countries have actively tried to encourage the participation of their own national companies in countertrade deals by creating preferential terms for local companies. Malaysia, for example, as noted in Appendix 5, has taken some steps to favour Malaysian registered companies as assignees in countertrade deals.

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.

Chapter 10 RESEARCH, MONITORING AND EVALUATION

10.1. Introduction

This chapter is concerned with the activities which can be undertaken by developing country governments in relation to supporting, monitoring and evaluating countertrade policies. The activities mostly relate to studies which are designed to put countertrade on the right course and keep it there. These studies may be undertaken by organisations within the developing country concerned or by external consultants, particularly the latter if aid funding or other sources of financial support are available.

10.2. Preliminary Studies

Preliminary studies are those undertaken prior to engaging in a countertrade policy or in preparation for particular deals.

(i) Feasibility of Countertrade and Set-up Studies

Some developing countries have undertaken special exercises to examine the feasibility of embarking on a countertrade policy and/or the actual mechanisms for establishing a working system. On occasions, external advice is sought from specialists in countertrade and there have been a few examples of developing countries receiving assistance from aid agencies in financing such studies.

(ii) Country Studies

Governments, organisations or private companies may, from time to time, want to assess the practicability of countertrading with particular partner countries. The need may be greatest when the proposed partner countries are other developing countries. In these cases it may be necessary to carry out studies to learn about the countertrade policies in force and assess the availability and marketability of the export products which are offered.

Also, a country may carry out special bilateral trade studies to identify those countries with which it has an unfavourable trade balance, with a view to exerting a little pressure to achieve a more equitable balance of trade. This may also take the form of identifying product needs within the other countries which could be supplied from the country concerned. India, for example, had an imbalance of trade with a particular Middle Eastern country; a study revealed that the other country required dump trucks which could be sourced from India and a proposal for a countertrade deal linking Indian imports from that country with Indian exports was put forward.

(iii) Import Absorption Studies

(a) Own Absorption Capacity. When bilateral trade negotiations are in progress, it is important for officials to know their own country's import absorption capacity, i.e. requirements for the goods proposed by the other country. There is no point in entering into commitments which imply a higher level of imports than are needed. As an example of such studies,

prior to negotiations on the continuation of the USSR/India clearing agreement, the Indian Institute of Foreign Trade carried out studies of the requirements in India for Russian goods.

(b) Other Country's Import Absorption Capacity. Particularly in cases where a country has some suspicions that its goods may be re-exported by the countertrade partner, it is necessary to check on the country's real requirements. For example, if an East European country is planning to enter a countertrade commitment to import more tobacco than it consumes in a year, it can be assumed that some of that tobacco is likely to be resold on the world market.

(iv) Import Price Research

As noted in Chapter 6, it is common practice for countertrade costs to be loaded on to the import price paid by developing countries. At the contract negotiation stage it is important to check, as far as it is possible, on the extent to which the import price has been increased. For some products, such as oil or basic commodities, this is easy to do but it is far more difficult in the case of many manufactured goods. However, it is possible to carry out some checks, such as comparing prices with those of comparable products entering the country under usual commercial terms.

(v) Export Research

When a government is deciding which markets are acceptable as destinations for its countertraded exports, it may need to carry out some research into the import statistics of potential partner countries to assess the usual level of trade and then decide countertrade policy on the basis of avoiding the replacement of commercial sales. Unit Khas Countertrade of Malaysia, for example, carries out such exercises before agreeing on destinations for its exports under counterpurchase arrangements.

Developing countries may also sponsor, or encourage other parties to undertake, market research on countertraded exports. This is particularly appropriate when new markets are being sought for traditional exports or when non-traditional export items are offered for countertrade.

10.3. Monitoring

During the course of a countertrade transaction it is important that monitoring procedures are in place so that contract terms can be checked. Some monitoring involves the continuation of exercises begun in the preliminary stages, for example, checking on costs and prices.

One of the most important subjects requiring monitoring is the final destination of countertraded exports. In order to protect against disruption of commercial sales it is necessary to try to ensure that the goods arrived and remained in the intended receiving country. This is notoriously difficult to achieve, particularly in the case of bulk commodities of standard specifications which can be easily diverted to other markets, but the attempt to check on arrival and usage should be made. Various means are available.

(i) It is possible to require that copies of shipping documents and an import declaration are despatched after arrival of the goods. It might also be possible to insist on inspection of the goods on arrival in the country. (The fact that goods have arrived in a given country does not guard against re-export but it at least ensures that the goods have not been diverted to another market prior to arrival. Also, re-exporting, because of the costs involved, might not be economically feasible.)

(ii) At a later date, the partner country's export and re-export statistics can be examined to see if any goods of that type left the country during a given period.

(iii) Informal checking can be undertaken by the embassy of the country in question, or by other sources, to verify that the goods remained and were used in the intended country. Such checking is much easier if the goods are shipped directly to an end-user rather than to a trader or other intermediary.

It may be impractical to imagine that the checking procedures outlined above could be carried out in every case, but it might be possible to check, for example, one in every four or five shipments on a sample basis.

A further alternative, of course, is that the services of inspection agencies could be employed to check on the arrival and distribution of goods in particular countries, but this would involve extra costs which would have to be borne by the developing country.

10.4. Evaluation

Fairly few attempts have been made to evaluate countertrade policies in a rigorous manner, partly because the experience of many countries has only been short term. It is important that some attempts at evaluation should be carried out so that background information is available to assist policy-makers in their deliberations concerning the future of countertrade in their countries.

Various attempts at evaluation could be imagined.

(i) "Additionality Studies". A few countries, including Malaysia, carry out research based on studying the import data of foreign countertrade partners over a number of years to check whether or not the level of exports of particular products to those countries has increased to beyond the level that existed before countertrade sales began. (The drawback of this method is that it is very difficult to know whether trade increased or decreased for reasons attributable to countertrade or to other factors.)

(ii) Cost/Benefit Analysis. As far as we are aware, no serious attempts have been made to carry out a thorough analysis of the costs and benefits of countertrade for particular countries. Such exercises would present some difficulties and would have to be tailored to the particular circumstances

of particular countries but it might be possible to develop a methodology, or at least some guidelines, for countertrade evaluation studies. This could be a subject that an aid agency might address on behalf of interested developing countries.

10.5. Development of Skills and Capabilities for Research and Evaluation

We have outlined a number of preliminary studies as well as making suggestions about carrying out monitoring and evaluation exercises. It is implicit within these recommendations that a need exists within developing countries to develop the necessary skills and capabilities required to undertake such studies and exercises. Little attention has been paid to this topic so far but it might be an area of activity in which aid agencies could help with the development of systems, methods and training.

Chapter 11 CHECKLISTS

The following checklists are provided as a guide to the major considerations to be taken into account in the formulation and application of a countertrade policy.

(i) REASONS FOR COUNTERTRADE

- Additional exports through:
 - new products
 - new destinations
- Conserve foreign exchange
- Protect exports
- Secure imports
- Develop domestic industry/economy.

(ii) POLICY OUTLINE

IS COUNTERTRADE THE ONLY MECHANISM FOR FULFILLING OBJECTIVES?

- What are the alternatives?
- Are the extra costs of countertrade outweighed by the benefits?

PROACTIVE OR REACTIVE POLICY?

- Depends on objectives set
- How would each fulfil objectives?

WHAT FORM SHOULD COUNTERTRADE TAKE?

- Mandatory or non-mandatory
- Government to government or at other levels
- Type of countertrade best suited to meet objectives; clearing agreements, special trading agreements, barter, counterpurchase, buy-back, etc.

WHAT LEVEL OF COUNTERTRADE IS REALISTIC?

WHAT GOVERNMENT MACHINERY IS NECESSARY?

- Should there be a central organisation? If so, made up from which sectors and/or departments?
- Is legislation needed to control use of countertrade? Including considerations such as:
 - foreign exchange control
 - import control
 - export control - products available.

WHAT ROLE SHOULD VARIOUS DOMESTIC ORGANISATIONS PLAY?

- Role of private sector
- Role of parastatals
- Role of government
- Co-ordination between various bodies.

WHERE WILL RESPONSIBILITY LIE FOR CONSIDERATION AND APPROVAL OF PROPOSALS?

- Ministry of Trade
- Central Bank.
- Special Committee/Department.

WHERE WILL RESPONSIBILITY LIE FOR IMPLEMENTATION OF DEALS?

- Parastatal organisations
- Private sector.

(iii) PRODUCTS

WHICH INDIVIDUAL PRODUCT ITEMS ARE SUITABLE FOR IMPORT AND EXPORT?

EXPORTS

"Acid test" - could products have been exported without the use of countertrade?

- Avoid use of traditional exports (unless "distressed")
- Avoid disruption of cash markets
- Are preferred export products available in sufficient quantities?
- Are export quality standards acceptable?
- What price structure to be used for non-traditional products?
- Should product lists be published?
- When do products cease to be non-traditional?

IMPORTS

"Acid test" - how essential are the import items?

- Ensure import products are of acceptable standards
- Ensure spare and replacement parts are available.

(iv) PARTNERS

GEOGRAPHICAL/POLITICAL LOCATION OF PARTNERS

- Eastern bloc
- OECD
- Other developing countries.

ECONOMIC POSITION OF PARTNERS

- Any special targeting of partners? e.g. countries with shortages of foreign exchange, countries on adverse balance of trade list.

TYPE OF PARTNERS

- Governments
- Parastatals
- Private trading houses
- Private companies.

WILL USE OF THIRD PARTIES BE ACCEPTABLE?

- Under what terms?

CHOOSE THIRD PARTIES DEPENDING ON OBJECTIVES

- Specifically for marketing non-traditional products or for improving domestic industrial base or for provision of advantageous financial terms.

(v) INFORMATION REQUIREMENTS AND MONITORING PROCEDURES

ARE COUNTERTRADE OBJECTIVES BEING ACHIEVED?

- Final destination of export products
- Assess whether additionality is being achieved
- Are import prices offered under countertrade realistic/competitive?

IS RELEVANT INFORMATION BEING COLLECTED?

- Monitor world prices for products exported through countertrade
- Monitor import prices under countertrade and non-countertrade transactions
- Information on export capacity
- Information on import absorption capacity.

(vi) TRANSACTION CHECKLIST FOR COUNTERTRADING ORGANISATIONS

PARTNERS AND PROPOSAL

NEGOTIATION, PLANNING AND PREPARATION

- Import values and products
- Export values and products
- Procedures.

GOVERNMENT LIAISON/APPROVAL/DIRECTION

ESTIMATE INCREMENTAL COSTS AND INVESTIGATE COST LIMITATION POSSIBILITIES

- Disagios (discounts)
- Lower export prices
- Higher import prices
- Miscellaneous costs
- Financing costs.

USE OF INTERMEDIARIES

- Trading houses
- International banks and local banks
- Providers of specialist services.

LIAISON WITH PARTNERS, GOVERNMENT, CENTRAL BANK, LOCAL ORGANISATIONS, INTERMEDIARIES, OTHERS.

CONTRACT TERMS

- Commitment to countertrade by two principals
- Assignment to third parties
- Proportion of countertrade
- Products available for countertrade
- Verification of allowable exports
- Product specifications
- Price of countertrade products
- Resale of countertraded exports
- Payment terms and conditions
- Timing
- Monitoring trade flows
- Penalties
- Arbitration and force majeure.

TRADING

MONITORING

Appendix 1 COUNTERTRADE TERMINOLOGY

Countertrade terminology is not standardised between countries or even within countries. For many terms there are a number of definitions.

Barter

"Classical" or "pure" barter means the direct exchange of goods without any money changing hands. Barter is usually a once-only transaction bound by a single contract. The term is sometimes used in a wider context to indicate all forms of reciprocal trade. Barter-style countertrade is used to describe the type of countertrade where an export from a developing country finances a subsequent import. This is also sometimes known as advance compensation.

Bilateral Trade and Payments Agreements

Government to government agreements, usually long term, operated through a clearing account.

B.O.T. (Build - Operate - Transfer)

Occasionally included within the general scope of countertrade, B.O.T. is more strictly speaking a form of project finance. The scheme, originally developed by Turkey, works as follows: The successful bidder for the designated project provides financing for the project, operates the facility once completed for a specified time period and then transfers ownership to a public authority. In its role as investor, the contracting company repatriates earnings from its equity investment at a guaranteed rate of exchange, equivalent to the cost of the project inputs.

Buy-back

Transactions involving the supply of capital equipment which is paid for with the resultant product of the factory/enterprise. Sometimes called compensation, cooperation or industrial cooperation.

Clearing Agreement

See Bilateral Trade and Payments Agreements.

Compensation

The term with the widest spread of variety of meaning. Variously used as the generic term for all countertrade, as an alternative for buy-back, as an alternative for barter-style countertrade and partial compensation to indicate deals partly settled in cash and partly through countertrade.

Counterpurchase

Transactions where an exporter, in order to win a contract, agrees to accept an obligation to take out products from the country concerned over time. Usually involves two or more separate but linked contracts.

Countertrade

Generic term for reciprocal forms of trading.

Disagio

The discount required by final buyers of countertrade goods in order to provide a purchasing incentive.

Escrow

Longman's Business Dictionary:

"a written agreement such as a contract, deed or bond that has been formally delivered by one of the parties to an independent person to be held in trust and to be delivered to the other party only when he has performed some stated duty, such as the payment of a sum of money. While the document is held in trust by the independent person it is said to be in escrow."

An escrow account is a bank account often used in countertrade transactions which offers specific guarantees to the parties to the escrow agreement.

Evidence Accounts

A monitoring mechanism by which each party to a reciprocal transaction records the inflows and outflows of a particular deal until the terms of the contract are fulfilled. May be maintained in the form of "mirror accounts" at banks in each country.

Linked Deals (Junktim)

Terms mostly used in the context of East/West countertrade involving an undertaking that future Western exports may be allowed to the value of goods already purchased. Sometimes called pre-compensation.

Linkage

Commonly used in various contexts, including the link between two separate but related contracts and, more specifically, the contractual right to procure goods from government departments/organisations other than the one concerned with the sale agreement. Can also be used to describe the purchase of products from a country before the execution of the export sales contract.

Offset

Occasionally used in a generic sense for any arrangement involving the reciprocal supply of goods, but usually reserved for transactions where aerospace or military equipment suppliers agree to procure related or unrelated goods from the purchasing country, or to assist in related production activities.

Parallel Trading

Used in a generic sense and also as an alternative to counterpurchase.

State Trading Agreement (STA)

Also sometimes known as special trade agreements or special trade arrangements, these are trade agreements between either two parastatal corporations or one parastatal and one private international trading company. They normally define a level of reciprocal trade over a specified period and can include very diverse product ranges in one contractual agreement. The period of the agreement is often one year with provision made for extensions.

Swap

Usually reserved for the simple exchange of bulk commodities, e.g. oil, where the same or similar commodity is used on both sides, perhaps to save on transport costs. Usually considered to fall outside the definition of countertrade.

Switch Trading

Various operations concerned with resolving imbalances in bilateral payments agreements, particularly where a third country supplies goods to the creditor nation within the bilateral agreement.

Trust Account

Similar to escrow, but the trust account is held separately from the general assets of the parties. They can accrue interest which is returned to the settlor on completion of the contractual obligations of the countertrade transaction. The trust concept is defined according to British law in the Trust Act of 1925.

Appendix 2 EXAMPLES OF COUNTERTRADE CONTRACTS

This appendix contains a number of examples of countertrade contracts. These are given purely for illustrative purposes and should NOT be regarded as blueprints.

1. Sample Countertrade Contract (from ASTRO, Manual of Comprehensive Reference Service on Countertrade).
2. Model Counterpurchase Contract (from ECE Guide on Drawing up International Contracts for Compensation Based Transactions).
3. State Trading Agreement between Private Trader and State Trading Corporation (from private source).
4. Example of Interbank Agreement (from private source).

1. Sample Countertrade Contract (from ASTRO Complementary Manual of Comprehensive Reference Service on Countertrade).

Countertrade commitment No.
concluded between (the supplier)
and (the importer)

Article I

- 1 (The importer) and (the supplier) have concluded contract No.... on (date) for the purchase of.... by (the importer). The value of the purchase is US\$...
- 2 (The supplier) commits himself to buy, or to have bought by third parties of his free choice, goods suitable to (the CT-committed and/or CT-fulfilling partners) at competitive prices and terms of delivery as herein defined by (the end-user of the CT goods, or the third party)
- 3 The value of (the supplier's) counterpurchases will be US\$... From this amount, goods for US\$... can be taken from (the importer) and/or goods for US\$... from (other specified or unspecified companies and/or organisations in the CT-demanding country)
- 4 Prices for goods accepted in CT under this commitment will be established according to the following method:
...
- 5 (The supplier) commits himself to order, or have ordered, goods qualifying for CT according to I.3 by (exact date), and to provide, or have provided, cover in payment of these goods

Article II

- 1 In case (the supplier) fails to fulfil his commitment, either completely or partly, by the date stipulated in I.5, a penalty of ...% of the unfulfilled value of the commitment is to be paid by (the supplier) to (the CT-demanding importer) in (currency)
- 2 To secure the transfer of this penalty, (the supplier) will issue, or cause to be issued by a third party, a bank guarantee for the penalty in question by (exact date: 3-6 months before the point of time fixed in I.5). The penalty will be payable to (the importer) through the (importing country's) foreign trade bank (against presentation of the following documents...)
- 3 Non-delivery of goods offered for CT fulfilment and eventually contracted by (the supplier) or a third party in full or partial fulfilment of this commitment will release (the supplier) from his commitment for the amount of the respective non-executed orders without penalty, recourse or any other claim at any time by (the importer) or (the would-be exporters of the CT goods) or authorities in the CT-demanding country

Article III

- 1 (The supplier) and (the importer) agree that only those contracts bearing the clause, "This contract is considered and agreed by both parties to be associated with contract No... with (the importer)", will be counted in fulfilment of the commitment made in I.3
- 2 (The supplier) and (the importer) will carry separate books of account on any and all contracts concluded in fulfilment of this commitment. The accounts of both parties will be mutually reconciled quarterly

Article IV

- 1 The two signatories of the CT commitment agree that the CT commitment will be null and void if (the supplier's) sales contract No..... of (date) with (the importer) does not come into force, irrespective by whose fault

Article V

- 1 Should disputes or disagreements arise concerning the wording or interpretation of this contract or its implementation, both parties will make every effort to resolve such disagreements in an amicable manner. In the event of failure to resolve such disagreements or disputes within a reasonable period of time, the parties agree to place the issue(s) before the Arbitration Commission at the International Chamber of Commerce, Paris, on the basis of the Commercial Law of....., and its Deeds of Arrangement and arbitration rules, and to be bound singly and collectively by its decision. The seat of any Arbitration Court will be in Paris

2. Model Counterpurchase Contract (from ECE Guide on Drawing Up International Contracts for Compensation Based Transactions).

Model Commercial Compensation (Counterpurchase) Contract
between Counterseller and Counterpurchaser

COUNTERPURCHASE CONTRACT

Between

Alpha/Corporation 1//Foreign Trade Organization 1//
of 1, Alpha Street, 00100 Alphatown, Alphaland
(hereinafter referred to as "Alpha")

and

Beta/Corporation/Foreign Trade Organization/
of 1, Beta Street, 00200 Betatown, Betaland
(hereinafter referred to as "Beta")

WHEREAS,

Under a Sales Contract dated _____ 19____ (hereinafter referred to as "the Sales Contract")
Alpha has sold to Beta, and Beta has purchased from Alpha, under the terms and conditions set forth
in the Sales Contract, the equipment specified therein (hereinafter "the Equipment").

As compensation to the Sales Contract, and under the terms and conditions set forth in this Contract,
Beta agrees to sell to Alpha, and Alpha agrees to purchase from Beta, the products specified herein.

NOW, THEREFORE, the parties to this Contract agree as follows:

1/ The words, or groups of words, separated by strokes are alternative formulations. Delete the one(s) not applicable.
See, also, footnotes 3/, 4/ and 11/.

ARTICLE 1 - THE COMPENSATION COMMITMENT

- 1.1 Alpha hereby agrees to purchase/or procure the purchase/from Beta/or (from Betaland/, under the terms and conditions set forth in this Contract, products which belong to the product 2/ group(s) specified in ARTICLE 3 of this Contract (hereinafter referred to as "the Products", 2/ and take delivery/or procure the taking of delivery/of the said Products.
- 1.2 Beta hereby agrees, under the terms and conditions set forth in this Contract, to sell and deliver/or procure the sale and delivery of/such Products to Alpha, and to accept the purchase by Alpha of such Products as compensation within the framework of this Contract.

ARTICLE 2 - ASSIGNMENT

- 2.1 Alpha may assign the whole, or a part, of its counter-
(A) 3/ purchase undertaking under this Contract, to any third party.
- 2.1 Alpha shall not be entitled to assign its counterpurchase undertaking under this Contract, either as a whole, or any part of it, to any other entity/without the express written consent of Beta 4/ which consent shall not be unreasonably withheld./
- 2.2 In case Alpha shall assign any part of its counterpurchase commitment under this Contract to a third party (hereinafter referred to as "the Assignee")/
(A) all rights and obligations of Alpha under this Contract with regard to the assigned portion of the counter-purchase obligation shall terminate at the time when the assignment contract between Alpha and the Assignee becomes effective, and the respective rights and obligations shall be vested in the said Assignee; provided that in the said agreement the Assignee assumes: all Alpha's obligations agreed upon in this Contract with regard to the portion so assigned.
- 2.3 Alpha agrees to include in its agreement with any Assignee appropriate provisions whereby the Assignee commits itself to be bound by this Contract with regard to the assigned portion of the counterpurchase commitment, as if this Contract had originally been executed by the Assignee. In consideration for the said commitment, Beta agrees to be bound by this Contract against the respective Assignee, with regard to the assigned portion of the counterpurchase commitment, as if this Contract had originally been executed with the Assignee.
- 2.1 Alpha shall remain responsible./jointly/jointly and severally/with the Assignee, for the fulfillment of all of its obligations agreed upon in this Contract.

ARTICLE 3 - THE PRODUCTS

- 3.1 In fulfillment of its counterpurchase commitment Alpha may purchase/
(A) 3/ any of the Products listed in Appendix 1 attached to this Contract.
- (B) 3/ any Products marketed by Beta. The Products marketed at present by Beta are listed in Appendix 1 attached to this Contract.
- (C) 3/ any Products marketed either by Beta or the/companies/foreign trade organizations/listed in Appendix 1 attached to this Contract.
- 3.2 Beta/warrants that, to the best of its knowledge,/does not warrant that/all products listed in the said Appendix 1/sufficient products/are under production in Betaland at the time when this Contract is signed and will be available for purchase, at the times specified in ARTICLE 11 of this Contract.

2/ Use word "service" and "Services" when applicable.
3/ When alternative formulations comprise entire clauses, sentences, or half-sentences, the various alternatives are indicated with capital letters (A), (B), etc.
4/ Replace "Beta" with the name of appropriate Government body in Betaland, when applicable.

3.3 Alpha undertands and accepts that while the Products specified in paragraph 3.1 above are, to the best knowledge of Beta, of the kind and nature as to qualify for compensation within the framework of this Contract, no official authorization, necessary for such qualification, has yet been applied for by Beta. Beta undertakes to file such application(s) within days/weeks/months from the signing of this Contract, and to inform Alpha about the status of any application every days/weeks/months until all applications have either been accepted or rejected.

3.3 Beta hereby warrants that the Products specified in paragraph 3.1 above have been authorized by the competent authorities as products qualifying for compensation within the framework of this Contract.

ARTICLE 4 - CONFORMITY OF THE PRODUCTS 5/

4.1 The Products to be delivered must be of the quantity, quality and description required by the individual purchase contracts (hereinafter referred to as "the Purchase Contract(s)") to be concluded within the framework of this Contract and must be contained or packaged in the manner required by the respective Purchase Contract.

4.2 Except where the parties to a Purchase Contract have agreed otherwise, the Products do not conform with the Purchase Contract unless they:

- (a) are fit for the purposes for which goods of the same description would ordinarily be used;
- (b) are fit for any particular purpose expressly or impliedly made known to the seller (hereinafter referred to as "the Seller") of the Products, at the time of the conclusion of the Purchase Contract, except where the circumstances show that Alpha (or the Assignee), in the capacity of buyer of the said Products (hereinafter referred to as "the Buyer") did not rely, or that it was unreasonable for it to rely, on the said Seller's skill and judgement;
- (c) possess the qualities of goods which the Seller has held out to the respective Buyer as a sample or model;
- (d) are contained or packaged in the manner usual for such goods or, where there is no such manner, in a manner adequate to preserve and protect the Products.

4.3 The Seller of the Products is not liable under paragraph 4.2 for any lack of conformity of the Products if at the time of the conclusion of the Purchase Contract the respective Buyer knew or could not have been unaware of such lack of conformity.

ARTICLE 5 - THE AGGREGATE VALUE OF THE COMPENSATION COMMITMENT

5.1 During the term of this Contract Alpha shall purchase Products for the value of/

(A) _____ \$/ (B) not less than per cent (%) of the total FOB / price of the Equipment as specified in Article X of the Sales Contract.

5.2 The value of each of the Purchase Contracts to be applied against Alpha's counterpurchase commitment under this Contract shall be the FOB / value of the respective Purchase Contract.

5.3 The value of each of the Purchase Contracts, if invoiced in a currency other than the currency in which Alpha's counterpurchase commitment is set forth hereabove, shall be applied against Alpha's commitment at the exchange rate quoted by the Central Bank of / at the date of the invoice issued in respect of such Purchase Contract.

5/ This Article 4 is based on Article 35 of the United Nations Convention on Contracts for the International Sale of Goods (1980).
 6/ Indicate amount and currency.
 7/ Insert here the applicable rule of interpretation of the term of delivery, e.g. Incoterms 1940, CIPPA-CGD 1968.
 8/ Indicate name of the country.

5.4 Alpha's undertaking to purchase Products for the value set forth in Paragraph 5.1 is agreed by the parties hereto/ (A) to represent a commitment over and above Alpha's purchase commitments, existing or under negotiation at the time when this Contract is signed, for products produced in Metaland. (B) to include Alpha's purchase commitments existing or under negotiation at the time when this Contract is signed, for products produced in Metaland.

ARTICLE 6 - RESALE OF THE PRODUCTS

6.1 Alpha/or the Assignee(s)/shall have the right to resell the Products in the territory agreed upon below in paragraph 6.2 (hereinafter referred to as "the Territory").

6.2 The Territory shall include/ (A) all countries in the world without any restrictions whatsoever. (B) The Territory shall include/ those countries set forth in Appendix I with respect to each of the Products or Product groups mentioned therein.

(C) Alphaland.

6.3 The Products shall not be resold outside the Territory without the written consent of Beta. 9/

6.4 It is agreed by the parties hereto that the restrictions set forth in paragraphs 6.2 and 6.3 above shall be construed as undertakings from the part of Alpha/or the Assignee/to refrain from actively putting the Products in the market outside the Territory. 9/ 10/

ARTICLE 7 - THE PRICE OF THE PRODUCTS

7.1 The parties agree that, (A) the prices of the Products offered under this Contract shall correspond to/ 7.1 The parties agree that, in order for Alpha to meet the costs resulting from/ interim financing/performance guarantees/ resale commissions or discounts/ the prices of the Products offered under this Contract shall be ___ per cent (___ %) below/

(A/B-1) 11/ the price generally charged at the time of the conclusion of the respective Purchase Contract for such products under comparable circumstances in the trade concerned. 12/

(A/B-2) 11/ the fair/average/market value of the Products in the Territory under competitive terms of delivery and payment.

(A/B-3) 11/ the prices of competing products, of essentially similar specifications and quality standards than those of the Products, in the Territory under competitive terms of delivery and payment.

(A/B-4) 11/ the quotation of the Product at the ___ exchange on the date when the respective Purchase Contract is concluded.

7.1 the parties agree that the prices of the Products shall be agreed upon (C) from case to case by the respective Seller and Buyer of the Products.

7.2 Notwithstanding the provisions of paragraph 7.1 above, Alpha/and the Assignee(s)/shall always be granted most-favoured-customer conditions in the Territory with regard to the Products, even if that could result in purchase prices below those agreed upon in the said paragraph 7.1.

9/ Not applicable if alternative A is chosen.

10/ Should be included if Alphaland or any of the countries listed in Appendix I are member countries of the European Economic Community (EEC).

11/ (A/B-1) to (A/B-4) are alternative clauses to be combined with either 7.1(A) or 7.1(B).

12/ This alternative is based on Article 55 of the United Nations Convention on Contracts for the International Sale of Goods (1980).

7.3 The prices of the Products shall be quoted and paid for in _____ 6/

7.4 In the event that Alpha/or the Assignee(s)/ shall be of the opinion that the Products are not offered at prices provided for in paragraphs 7.1 and 7.2 above, Alpha/or the Assignee(s)/shall have the right to request the offer price to be determined in accordance with paragraph 20.4 below.

ARTICLE 8 - THE CONCLUSION OF PURCHASE CONTRACTS

8.1 From time to time during the term of this Contract, Beta shall submit/or procure the submission/ to Alpha/of/sale offers for the Products (hereinafter referred to as "Beta Offers"), for delivery within the framework of this Contract.

8.2 Beta agrees that,

(A) (i) each Beta Offer shall contain full details of the quantities in which the products are available, prices and proposed delivery dates)

(ii) each Beta Offer shall specify that it relates to the obligations of Alpha and Beta, respectively, under this Contract;

(iii) the Beta Offers shall be binding on the offerer for a period of at least ___/days/weeks/months from the date of submission; and that

(iv) the deliveries offered in the Beta Offers shall be for the value of at least _____ 6/ per delivery.

8.3 Notwithstanding the provisions of paragraphs 8.1 and 8.2 above, Alpha may independently from Beta invite sales offers (hereinafter referred to as "Alpha Offer Invitations") for the Products from Betaland, provided that in such invitations Alpha shall request that each offer shall specify that it relates to the obligations of Alpha and Beta, respectively, under the terms of this Contract.

8.4 In case Alpha shall assign any part of its counterpurchase obligation under this Contract, the parties hereto shall agree on whether the Beta Offers shall continue to be addressed to Alpha, or whether they, or part of them, shall be addressed to an Assignee designated by Alpha. Failing such agreement, the Beta Offers shall be deemed to be properly submitted if addressed to Alpha.

8.1 In order to fulfill its counterpurchase commitment under this Contract, Alpha shall invite sales offers for the Products from Betaland (hereinafter referred to as "Alpha Offer Invitations"), provided that in such invitations Alpha shall request that each offer shall specify that it relates to the obligations of Alpha and Beta, respectively, under this Contract.

8.2 At Alpha's request, Beta shall provide Alpha in Betaland all reasonable assistance at/no/cost in order for Alpha to contact potential Sellers of the Products.

ARTICLE 9 - REFERENCE

Each Purchase Contract as may be entered into by Alpha/or the Assignee/in accordance with the terms of this Contract, shall explicitly refer to this Contract and state that the said Purchase Contract is made in fulfillment hereof. Alpha agrees to include in its agreement with any Assignee appropriate provisions to this effect.

ARTICLE 10 - PAYMENT/COMPENSATION OF THE PRODUCTS

10.1 The Products shall be paid for in the currency agreed upon in paragraph 7.3 above, and in the manner set forth in paragraph 10.2 below.

10.1 In accordance with the provisions of ARTICLE XX of the Sales Contract, the parties agree that the Products shall be delivered as/full/partial/compensation of the price of the Equipment delivered under the Sales

Contract, and that no money payments shall thus be made for the said Products, provided, however, that the aggregate value of the Products purchased by Alpha/or the Assignee(s) shall not exceed the price of the Equipment/. in the event that Alpha/or the Assignee(s)/should purchase Products for a value exceeding the price of the Equipment, such exceeding value shall be paid for in the currency agreed upon in paragraph 7.2 above, and in the manner set forth in paragraph 10.2 below.

10.7 Each delivery of the Products shall be paid against the original documents set forth in paragraph 10.3 below/

10.2 In case any part of the Products shall be paid for (B) in money, each such part of the Products shall be paid against the original documents set forth in paragraph 10.3 below/

(A/B-1) through direct bank transfer to the bank account in Detaland, of the Seller of the respective Products.

(A/B-2) through an irrevocable and transferable Letter of Credit, allowing partial and trans-shipments, to be opened in the amount of the respective Purchase Contract at the latest ___ days after the signing of the said Contract, in the respective Seller's favour, and to be confirmed by the Bank in Detaland designated by the said Seller, such Letter of Credit to be valid for a period of ___ days/weeks/ months after the agreed date of delivery of the respective Products.

(A/B-3) by depositing the respective sums on a bank account (hereinafter referred to as "the Escrow Account"), opened by Alpha in Alghaland for this purpose, such sums to be subsequently debited, in accordance with ARTICLE XXI of the Sales Contract, from the Escrow Account as payments for the Equipment.

10.3 The Products/Letter of Credit/shall be payable against the following documents:

- _____
- _____
- _____

10.4 The Buyer of the Products shall bear all exchange and bank charges as well as any other costs./including the confirmation charges of Letters of Credit but/excluding the charges of the bank of Detaland for transferring the funds to the seller's account.

ARTICLE 11 - TIME SCHEDULES FOR PERFORMANCE

11.1 Beta agrees to submit/or have submitted/to Alpha, 11.1 Alpha agrees to submit by (A) by the dates set forth below in this paragraph, Beta (B) the dates set forth in this paragraph, Alpha Offer Offers for at least the cumulative values indicated below./the total amount of such Beta Offers/ below./the total amount of such Alpha Offer Invitations/

(A/B) 1)/ /being ___ per cent (___ %) over and above the aggregate value of Alpha's compensation commitment, agreed upon in paragraph 5.1 above/

Dates Cumulative values

1.	___/___/19	_____
2.	___/___/19	_____
3.	___/___/19	_____

total: _____

1)/ (A/B) may be combined with either 11.1(A) or 11.1(B).

11.2 The parties hereto agree that, by the dates set forth below in this paragraph, sums amounting to at least the cumulative values indicated below, shall have to be recorded in favour of the Seller of the Products in recognition of the deliveries of the respective Products, the total amount of the sums thus recorded/

11.2 The parties hereto agree that, by the dates set forth below in this paragraph, sums amounting to at least the cumulative values indicated below, shall have to be recorded in favour of the Seller of the Products in recognition of the deliveries of the respective Products, the total amount of the sums thus recorded/

(A/B) 14/ being equal to the aggregate value of Alpha's counterpurchase commitment, agreed upon in paragraph 5.1 above/:

Dates	<u>Cumulative values</u>
1. <u> </u> / <u> </u> / 19 <u> </u>	_____
2. <u> </u> / <u> </u> / 19 <u> </u>	_____
3. <u> </u> / <u> </u> / 19 <u> </u>	_____
totals	_____

ARTICLE 12 - MONITORING THE PERFORMANCE

12.1 Alpha shall keep a record of all Alpha Offer Invitations it has made or procured to be made, and Beta shall keep a record of all Beta Offers it has submitted or procured to be submitted within the framework of this Contract. Both Alpha and Beta shall keep records on all Purchase Contracts concluded within the framework of this Contract. Each such record (hereinafter referred to as "the Evidence Account") shall be in the form set forth in Appendix 2 to this Contract.

12.2 In order to comply with the obligations agreed upon in paragraph 12.1 above, Alpha shall request, in cases where it shall not act as Buyer of the products, the respective Buyer(s) to provide the necessary information. For the same purpose, Beta shall request the respective Seller(s) to provide corresponding information.

12.3 The Evidence Accounts maintained by Alpha and Beta shall be compared and agreed by the parties through exchanges of letters on a quarterly basis during the term of this Contract, the first occasion being no later than / / 19 .

12.4 Alpha and Beta hereby agree that the Evidence Accounts, compared and agreed in accordance with paragraph 12.2 above, shall constitute final and conclusive evidence as to the performance of their obligations under this Contract.

ARTICLE 13 - NONPERFORMANCE

13.1 In the event that Alpha's compensation commitment, agreed upon in this Contract, has not been fully performed, in the manner, and by the date last mentioned, in paragraph 10.2 above, Alpha shall, upon written demand by Beta, remit to Beta as agreed and liquidated damages per cent (%) of the value of the Products yet to be purchased under paragraph 5.1 hereof.

13.1 The Products being delivered, in accordance with the provisions of ARTICLE XX of the Sales Contract, as/full/partial/compensation of the price of the Equipment delivered under the Sales Contract, the parties hereto agree that through its failure to perform, by the date last mentioned in paragraph 10.2 above, any part of its compensation purchases under this Contract, Alpha shall be deemed to have waived its right to be compensated for the corresponding part of the price of the Equipment.

13.2 Notwithstanding the provisions of paragraph 13.1 above, Alpha shall not be deemed to have waived its rights to be compensated for the price of the Equipment insofar as the lack of performance of Alpha's counterpurchase commitment is due/

13/ (A/B) may be combined with either 11.1(A) or 11.1(B).
14/ (A/B) may be combined with either 11.2(A) or 11.2(B).

(A/B) to Beta's failure to procure the submission of Beta Offers, regarding products of the quality, cumulative value, or price, specified in ARTICLES 4, 7 and 10, respectively, of this Contract, or to the failure of the respective Seller(s) to deliver Products of the quality, cumulative value, or price, specified in ARTICLES 4, 7 and 10, respectively, of this Contract.

13.3 As guarantee for (A) the due performance of its payment obligations under this ARTICLE 13 Alpha shall obtain a bank guarantee from a bank in Alphaland, acceptable to Beta, for the sum of _____, that sum being equal to Alpha's compensation undertaking under paragraph 5.1 of this Contract. The bank guarantee shall be essentially of the form and contents as set forth in Appendix 3 attached to this Contract.

13.4 The payment by Alpha of the agreed and liquidated damages, set forth in Paragraph 13.1 above, shall be in full and final settlement of all claims that Beta may have against Alpha arising out of or in connection with the breach by Alpha of its obligations under this Contract.

13.3 If Alpha has failed to perform any part of its compensation purchases for the reasons set forth in paragraph 13.2 above, the parties shall resort to the procedure agreed upon in ARTICLE 15 below, in order to modify the appropriate provisions of this Contract so as to allow Alpha to perform its counterpurchases for the part not yet performed.

13.4 In the event that, by the agreed last date for complete fulfillment, and in spite of the parties having resorted to the procedure agreed on in paragraph 13.3 above, any part of Alpha's compensation commitment has not been fulfilled for the reasons set forth in paragraph 13.2 above, Beta hereby agrees to pay to Alpha, within _____ days after the said agreed last date for complete fulfillment, that part of the price of the Equipment which has remained uncompensated, such payment to be made in _____ 15/ through direct bank transfer to the bank account determined by Alpha for this purpose.

ARTICLE 14 - EXEMPTIONS 16/

14.1 A party is not liable for a failure to perform any of its obligations if it proves that the failure was due to an impediment beyond its control and that it could not reasonably be expected to take the impediment into account at the time of the conclusion of the contract or to have avoided or overcome the impediment or its consequences.

14.2 If the party's failure is due to the failure by a third person whom it has engaged to perform the whole or a part of this Contract, that party is exempt from liability only if:

- (a) it is exempt under paragraph 14.1 above; and
(b) the person whom it has so engaged would be so exempt if the provision of paragraph 14.1 above were applied to him.

14.3 Exemption under this ARTICLE 14 shall be available to the affected party for the period during which the impediment prevents it from fulfilling its obligations under this Contract. If the effect of the impediment lasts for more than _____ () months, each party shall be entitled to terminate this Contract upon written notice to the other/

(A) and neither party shall be liable to the other for any expenses or losses thereby incurred. (B) and neither party shall be liable to the other for any expenses or losses thereby incurred, provided, however, that Beta shall pay to Alpha, within _____ days after the date of the termination, any part of the price of the Equipment that shall, as a result of the termination, remain uncompensated by the delivery of Products under this

15/ Indicate currency.
16/ This Article 1. is based on Articles 79 and 80 of the United Nations Convention on Contracts for the International Sale of Goods (1980).

Contract, such payment to be made in 5/ through direct bank transfer to the bank account determined by Alpha for this purpose.

14.4 The party who fails to perform must give notice to the other party of the impediment and its effects on its ability to perform. If the notice is not received by the other party within a reasonable time after the party who fails to perform knew or ought to have known of the impediment, it is liable for damages resulting from such non-receipt.

14.5 A party may not rely on a failure of the other party to perform, to the extent that such failure was caused by the first party's act or omission.

ARTICLE 15 - REVISION OF THE TERMS OF THIS CONTRACT

(A) If either party to this Contract should, during the course of performance of its obligations herein set forth, be of the opinion that, in view of the circumstances prevailing in the territory, either sufficient products are not available in Bekaland, or the products are not of agreed quality/or suitable export quality/or competitive in price/, the parties shall, at the request of either of them, review the said circumstances at the time. If, upon such review of the matter in good faith and in the spirit of co-operation with a view to reaching a mutually-acceptable solution, the parties agree that Alpha is not able to comply with the undertaking contained in this Contract for the reasons above given, then the appropriate provisions of this Contract shall be modified to take into account the said actual circumstances.

(B) The representatives of the parties to this Contract will meet from time to time to review the realization of this Contract and to make, by mutual agreement, such modifications in the Contract as may be considered necessary.

ARTICLE 16 - THE EFFECT OF THE TERMINATION OF THE SALES CONTRACT OR THE PURCHASE CONTRACTS

16.1 In case the Sales Contract should subsequently be terminated/through no fault on the part of Alpha/for whatever reason/ (A) Alpha shall have, in addition to the remedies agreed upon in the Sales Contract, the option to terminate this Contract, such option to be exercised without unnecessary delay after termination of the Sales Contract. In the event that the Sales Contract should be so terminated only partially, Alpha shall have the above-mentioned option regarding a corresponding proportion of the counterpurchase commitment agreed upon herein.

(B) Alpha shall remain bound by its counterpurchase undertaking agreed upon in this Contract, irrespective of the grounds for which the Sales Contract was terminated.

16.2 For the purposes of this Contract, Alpha's counterpurchase commitment, agreed upon herein, or a respective part thereof, as the case may be,/

(A) shall be deemed fulfilled even if any Purchase Contract should later be terminated/through no fault on the part of Alpha/for whatever reason/.

(B) shall not be deemed fulfilled insofar as any Purchase Contract should later be terminated, irrespective of the grounds for which the Purchase Contract was terminated. In this case Alpha shall be obligated to conclude (a) fresh Purchase Contract(s) corresponding to the value of the terminated Purchase Contract(s) such fresh Purchase Contracts to be then carried out in accordance with the provisions of this Contract.

ARTICLE 17 - THE TERMS OF ALPHA OFFER INVITATIONS AND BETA OFFERS

17.1 The parties hereto agree that/the Alpha Offer invitation/and/or/the Beta Offer/should be deemed to have been made as required by this Contract only if they incorporate by reference/all provisions/the following provisions: _____ of this Contract as being term of the respective Purchase Contract to be concluded thereunder.

17.2 Regarding terms other than those referred to above, the parties to a Purchase Contract may agree on such terms on a case-by-case basis.

ARTICLE 18 - EFFECTIVENESS AND AMENDMENTS

18.1 Except as otherwise expressly provided in this Contract, this Contract supersedes and invalidates all other commitments or representations which may have been made by Alpha and Beta either orally or in writing prior to the date of signature of this Contract.

18.2 This Contract shall come into effect upon its signing by both parties and upon the approval of this Contract by the competent authorities in/Detaland/and/Alphaland. Beta shall immediately notify Alpha/and/Alpha shall immediately notify Beta/by cable or telex of such approval, and the date of such notification/the dates of such notification/shall be the date on which this Contract comes into effect.

18.3 Amendments to this Contract will be effective only if they are made in writing and signed by legally authorized representatives of the parties, and if approved by the competent authorities in Uetaland/and/Alphaland.

ARTICLE 19 - APPLICABLE LAW AND AUTHENTIC TEXT

19.1 This Contract shall for all purposes be governed by, and construed in accordance with,

(A) the material and procedural law of _____ 17/ and the procedural law of _____ 17/

19.2 The _____ 18/ text of this Contract is authentic.

ARTICLE 20 - SETTLEMENT OF DISPUTES

20.1 All disputes or differences which may arise between the parties out of or in connection with this Contract, and which cannot be settled amicably by means of negotiation, shall be subject to arbitration by _____ 19/ arbitrator(s) under the rules of _____ 20/

20.2 The award of the arbitrator(s) shall be final and binding on the parties.

20.3 Notwithstanding the provisions of paragraphs 20.1 and 20.2, in the event mentioned in paragraph 7.4, the price of the Products shall be determined by one arbitrator appointed in accordance with the rules indicated in paragraph 20.1. Such arbitrator shall be appointed within _____ 21//weeks/months/after the request by Alpha/or the Assignment/for such appointment. Unless otherwise agreed by the respective parties, the parties shall be entitled to plead in writing only, and the arbitrator shall render his decision within _____ 21//weeks/months/after having been appointed. The decision of the arbitrator may be challenged by either party in an arbitration procedure in accordance with the provisions of this Article 20.

20.4 The arbitrators shall be fluent in _____ 18/ and the arbitration proceedings shall be conducted in the said language.

20.5 The place of arbitration shall be _____ 22/

_____ 19/

Alpha

by _____

beta

by _____

- 17/ Indicate country.
- 18/ Indicate language.
- 19/ Indicate number of arbitrators.
- 20/ Indicate applicable rules.
- 21/ Indicate time period.
- 22/ Indicate place and country.

3. State Trading Agreement Between Private Trading Company and Government Trading Corporation (from private source).

This STA agreement has been reproduced exactly from the original except that references to the particular partner country and the private trading company concerned have been removed.

STA AND PROTOCOL BETWEEN PARASTATAL TRADING CORPORATION OF COUNTRY A AND MESSRS. ABCD

WHEREAS THE PARASTATAL TRADING CORPORATION (hereinafter referred to as PTC) and MESSRS.(hereinafter referred to as "ABCD") being desirous of continuing to promote the export of Country A goods and commodities through (a) finding new markets for both traditional and non-traditional goods (b) finding increased access of Country A goods in existing markets (c) development of new export products, against import of some essential cash saving items, have mutually agreed to enter into Special Trading Arrangement on self-balancing basis valid for one year but renewable for further consecutive terms of one year each for a period of three years subject to the successful execution of each previous term.

AND WHEREAS PRIVATE TRADING CO. B. of Country A shall act as the local representative of ABCD.

Now in pursuance therefore the parties hereto agree to conclude the protocol as follows:-

ARTICLE I

That ABCD shall make purchase from PTC/Other Govt. Corporation/Private Sector of goods and commodities indicated in Schedule "A" annexed herewith and the PTC/Other Govt. Corporation/Private Sector shall make purchase from ABCD of goods indicated in Schedule "B" annexed herewith. These schedules of goods may be modified, if necessary, during the validity of the STA by mutual consent of the two parties expressed in writing.

ARTICLE II

That either side shall make purchase of goods and commodities for a total value of US\$ 10.00 (ten) million and the ceilings for individual item have been indicated in the Schedule "A" and "B". These ceilings may be increased on the basis of performance following a review to be made six months after the conclusion of the Arrangement.

Unless otherwise provided in individual contracts, the value of goods to be purchased from Country A shall be mentioned on FOB basis and the value of the goods to be imported into Country A shall be mentioned on C & F basis.

ARTICLE III

That the trade and exchange of goods between the two contracting parties shall be conducted in accordance with the import and export laws, rules and procedures and the foreign exchange regulations in force from time to time in Country A.

ARTICLE IV

That contracts under this Arrangement shall be negotiated and finalised between PTC/Other Govt. Corporation/Private Sector in one part and ABCD in other part.

All contracts under this Arrangement shall be made on normal commercial terms and at internationally competitive prices. Quality and specifications of the goods to be imported/exported under this Arrangement shall be of international standards and/or as will be specified in contracts and mutually acceptable.

ARTICLE V

That exports under this Arrangement will be eligible to all the benefits of normal export incentive wherever applicable.

ARTICLE VI

That ABCD's local representative/nominee will be allowed to directly purchase commodities from the national auctions and export the same with the approval of the competent authority. With regard to other items covered by Schedule "A" they will be free to buy the goods/commodities from the concerned Government Corporation/PTC/Private Sector.

M/s. ABCD shall register all export contracts with the PTC before conclusion with the Govt. Corporation/Private Sector.

ARTICLE VII

That the pre-shipment inspection of goods to be imported into Country A will be carried out if desired by buyers by Inspecting Agents to be nominated by the concerned importing organisation at sellers' (M/s. ABCD's) cost. In case of export goods, the pre-shipment inspection may be carried out if desired by the buyers at M/s. ABCD's expense by Inspection Agent(s) to be nominated by the buyer or PTC or concerned Govt. Corporation.

ARTICLE VIII

That this protocol shall be effective from the date of its execution and remain valid for one year renewable on mutual agreement for further consecutive terms of one year each for a period of three years subject to the successful execution of each previous term. All contracts under this Protocol shall be concluded as soon as possible and shipment whether of import or export shall be completed within the said period. This Protocol may, however, be extended by grace period/periods by mutual agreements.

ARTICLE IX

For the purpose of settling transactions under this Arrangement an internationally reputed bank, nominated and authorised by ABCD shall open with a Scheduled Bank in Country A to be designated by Central Bank of A (hereinafter referred to as "designated bank") a Special non-convertible US DOLLAR Account which will be self-balancing through exchange of goods.

ABCD's nominated bank and the designated bank shall mutually agree on the mode of settlement of transactions.

ARTICLE X

All contracts, invoice and other documents relating to the transactions to be effected under this Protocol shall be expressed in US DOLLAR.

ARTICLE XI

All transactions under this Arrangement both for imports and exports shall be routed through the said account and all Licences, permits, letters of credit and authorisations, etc. issued to cover the transactions shall be booked through the aforesaid Bank and shall bear clear reference to that Account.

ARTICLE XII

ABCD's nominated bank may operate their Dollar Account with an overdraft limit of US\$1,000,000 if from time to time exports from Country A are in advance of imports to Country A. But the amount of overdraft will bear interest at the rate of per annum.

ARTICLE XIII

If ABCD should be ahead in their exports to Country A the respective credit balance realised from letters of credit established in their favour will remain in the aforesaid Dollar Account, until the amount has been fully utilised according to Article XIV(d) and will bear interest at the rate of per annum.

ARTICLE XIV

The mode of payment for import into and export from Country A shall be as under:-

IMPORT INTO COUNTRY A

- a) The PTC/Govt. Corporation/Private Sector authorised for the purpose of importing the goods/commodities specified in schedule "B" shall pay into such Account as in Article IX the full C & F value by means of irrevocable, transferable, divisible and confirmed sight letter/letters of credit. Such letter/letters of credit shall be opened in US Dollar in ABCD's favour with the designated bank in Country A.

Such letter/letters of credit shall be negotiable against the following documents:-

- i) Full set of clean on board bill of lading made out to order or blank endorsed covering shipment/shipments of goods or commodities marked "Freight pre-paid" and showing destination ports.
- ii) ABCD's original invoice and seven copies thereof duly signed covering the shipment/shipments showing quantity of goods/commodities shipped, unit price and total C & F invoice value in US Dollar.
- iii) Any other documents required by the buyers as per terms of the contract/contracts.
- b) Such letter/letters of credit shall be opened in accordance with the terms and conditions of the contract/contracts.
- c) The resulting Dollar amount of negotiation(s) of the above mentioned letter/letters of credit shall be credited to ABCD's nominated bank's Dollar account in Country A as mentioned in Article IX.

EXPORT FROM COUNTRY A

- d) Payments for exports from Country A shall be effected by debiting ABCD's nominated bank's Dollar account in Country A as mentioned in Article IX as follows:-
- i) The value of commodities to be exported from Country A against confirmed, irrevocable, divisible and transferable sight letter of credit to be established by ABCD. All such export L/C shall be opened in favour of PTC through the designated bank in Country A.
- ii) Loading and Inspection charge relating to the exports.
- iii) Normal banking charges.
- iv) Maritime freight, if any.

ARTICLE XV

The designated bank shall be required to furnish in the first week of every month a report (as per proforma to be prescribed) on the transactions on account of both import and export items during the preceding month, to the two parties to this Arrangement.

ARTICLE XVI

That while charges for establishment of the letter of credit will be on account of the buyer, charges for negotiation and confirmation if required of the L/C shall be on account of the beneficiaries. Charges for extension/amendment of L/C shall be on account of the party responsible for such extension/amendment.

ARTICLE XVII

That normally no Dollar balance in the aforesaid account maintained with designated bank shall be converted into any other foreign currency or remitted outside Country A and imbalance, if any, at the end of the tenure of the STA shall be adjusted through supply of goods as much as possible. However, if the Account is not fully balanced even after the extension of the validity of the STA for certain period, then the balance amount is to be remitted in free foreign exchange.

ARTICLE XVIII

That ABCD shall pay to the PTC a non-refundable commission of the value of the goods exported from Country A whether those are purchased from PTC/Government Corporation or from any other agency or parties in Country A. Such payments are to be made in excess of the value of each protocol and remitted to PTC on quarterly basis.

ARTICLE XIX

That the PTC under no circumstances shall have any liability whatsoever in connection with and relating to export of the goods indicated in Schedule "A" and regarding price, quality, quantity, packages, grades, shipment schedule, etc. and/or for completing and effecting the contract/contracts for export of goods indicated in schedule "A" except for those which are purchased through and exported by the PTC.

ARTICLE XX

That ABCD shall keep the PTC continuously informed as to the progress of shipment, prices, etc. of goods and commodities indicated in schedule "A" and "B" of this STA.

ARTICLE XXI

That all letters of credit, invoices and other shipping documents relating to export of goods under the STA shall bear reference of "PTC-ABCD" STA, dated.....

ARTICLE XXII

That import and export cargo generally be transported in Country A Flag vessels. In case of non-availability of any vessel of Country A Flag other vessels can be used by notifying PTC.

ARTICLE XXIII

That the goods and commodities specified in Schedule "A" and "B" and the value shown against each item or group of items shall not be amended except by mutual agreement between the contracting parties.

ARTICLE XXIV

That notwithstanding anything contained in any contract and/or the contracts to be executed between the parties pursuant to this Special Trading Arrangement for the due fulfilment of this Arrangement review meeting will be held in Country A between the two parties once in every six months from the date of execution of this Arrangement and any imbalance in the export from the imports into Country A pursuant to the contracts and other unforeseen problems if any, under this Arrangement, shall be resolved or settled by mutual negotiation.

ARTICLE XXV

That all questions, disputes and differences relating to and arising out of this Arrangement and/or the contracts to be executed pursuant to this Arrangement or in any way covering it shall be amicably settled by the parties by mutual negotiations. Should such negotiations fail, the matter shall be referred to two arbitrators, each party nominating one of them. In case the two arbitrators fail to agree among themselves, the matter shall be referred to a common umpire whose decisions shall be final and binding upon the parties and in case the two arbitrators fail to agree on a common umpire, the International Chamber of Commerce London may be requested by either party to designate an umpire and such designation shall be final.

Such arbitration shall take place in Country A in accordance with the Municipal Laws of Country A and the parties shall bear their own costs themselves. The contracts to be executed pursuant to this STA and Protocol shall be interpreted and construed with special reference to this Arrangement.

This Arrangement (Protocol and STA) is signed on the..... day of..... 19.....in two original copies in English language, both of which are equally authentic.

SIGNED

(FOR ABCD)

FOR PARASTATAL
TRADING CORPORATION OF COUNTRY A

WITNESSES

1.

2.

EXPORTS FROM COUNTRY ASCHEDULE "A"

<u>Sl. No.</u>	<u>Name of the Commodity</u>	<u>Value ceiling in Million US Dollar</u>
1.	Fibres and related products	2.20
2.	Shrimps/Frozen/Marine food	0.50
3.	Tea (loose)	0.45
4.	Tea (packet)	0.55
5.	Hides and Skins	0.50
6.	Fruits and Vegetables	1.00
7.	Wheat and Rice Bran (animal food)	0.30
8.	Rape Seed Extracts	0.50
9.	Spices	0.20
10.	Hardboard	0.20
11.	Cellophane	0.10
12.	Soap and Detergents	0.10
13.	Stainless Steel Cutlery	0.10
14.	Electric Switch & Appliances	0.10
15.	Carpets	0.60
16.	Readymade Garments	1.00
17.	Specialised Textiles	0.10
18.	Hosiery Products	0.10
19.	Electric Wires and Cables	0.20
20.	Handicrafts	0.30
21.	P.V.C. Pipes	0.10
22.	Potato	0.10
23.	Ceramic Products	0.10
24.	Crushed Bones	0.20
25.	Leather Goods including Footwear and Handbags	0.40
	Total	10.00 million

IMPORT INTO COUNTRY A:SCHEDULE "B"

<u>Sl. No.</u>	<u>Name of the Commodity</u>	<u>Value Ceiling in Million US Dollar</u>
1.	Dyes and Chemicals	1.50
2.	Drugs and Medicines	4.00
3.	Pharmaceutical Raw Materials	3.00
4.	X-Ray Film	0.25
5.	Electromedical Hospital Equipment including X-Ray Machine	0.25
6.	Milk Food Full Cream 5 lbs. tin	0.70
7.	Pesticides	0.30
	Total	10.00 Million

4. Example of Interbank Agreement (from private source).

INTERBANK AGREEMENT

THIS INTERBANK AGREEMENT has been made on the _____ day of _____ 19____, between

- 1) The National Bank of country X
(hereinafter called "NBX"); and
- 2) Bank of Y
(hereinafter called "BY")

Pursuant to Article 5 and other relevant articles of the "Trade Agreement" dated _____ between Messrs. the Trading Corporation of X (hereinafter called "TCX") and Messrs. The Bank of Y (hereinafter called "BY") NBX and BY have agreed upon the following:-

Article 1

1.1. For recording and settlement of the payments related to the mutual deliveries of goods to be made under the Trade Agreement and, subject to the provision set forth hereunder, NBX and BY will each establish a special settlement account (the "Trade Account") in U.S. Dollars which will work on a yearly basis. The Trade Account will record credit and debit entries, as the case may be, coming from the receipt and payment of delivered goods according to the provisions of this Interbank Agreement.

1.2. All payments are to be made without actual transfer of funds subject to the provisions set forth in Article 5.

1.3. The balance recorded on the Trade Account may not at any time exceed the maximum level of US\$ 10 million either to the credit or to the debit. When outstanding balance on the Trade Account tends to reach the maximum level referred to in this Article, the bank recording the import surplus shall temporarily suspend opening of fresh import letters of credit under this Agreement, unless otherwise mutually agreed to as a special case, while the concerned contracting parties take steps to expedite transactions so that the imbalance is reduced to the minimum.

Article 2

2.1. The balance recorded on the Trade Account will bear interest at the London Interbank Offered Rate quoted for one month U.S. Dollar deposits in the London Eurodollar Market at 11.00 a.m. London time on the first working day of each calendar month, as reported in the Reuters' ticker (Reuter Money Report). Such rate shall be applied to the above stated daily balance until the next revision of the rate, which will occur on the first working day of the immediately following calendar month.

2.2. The computation of interest will be made on the basis of a 360 day year and the actual number of days elapsed and shall commence on such value date as referred to in Article 3.4.

2.3. The interest will be calculated by NBX and recorded on a quarterly basis without deduction for any present or future taxes, levies or withholdings of any nature now or hereafter imposed by any taxing authority in a separate account to be designated at the "Interest Trade Account", which NBX and BY will each establish in U.S. Dollars, within thirty (30) days from the end of _____ and every quarter thereafter. Within twenty (20) days from the end of each quarter, NBX will furnish a statement of interest due, which will be confirmed by BY within ten (10) days from their receipt of such statement by NBX, and the balance of the "Interest Trade Account" will be transferred to the "Trade Account" at the end of one year or at the expiry of this Interbank Agreement in order to be settled pursuant to Article 5 of this Interbank Agreement. However, in the event this Interbank Agreement expires on a day other than the day at the end of a quarter, the interest accrued thereon but not yet recorded pursuant hereto will be recorded as of the expiry of this Interbank Agreement directly in the Trade Account within thirty (30) days from the expiry of this Interbank Agreement, such accrued interest to be calculated by NBX within twenty (20) days from the expiry of this Interbank Agreement and confirmed by BY within ten (10) days from their receipt of the statement which will be furnished by NBX within twenty (20) days from the expiry of this Interbank Agreement.

Article 3

3.1. According to the provisions of this Interbank Agreement, the settlement of payment of delivered goods will be effected in conformity with the commercial contracts separately concluded within a scope of the Trade Agreement by means of the irrevocable documentary letters of credit (the "Letter(s) of Credit" or the "L/C(s)", as the case may be).

3.2. The value of the goods exported from country X shall be on FOB basis and of those imported into country X on FOB/C&F basis, as the case may be.

3.3. The Letter of Credit opened by NBX or BY in order of TCX and/or other Public/Private enterprises or _____ (and/or its nominees) respectively will restrict the negotiation of the draft, which is to be drawn on TCX and/or _____ (and/or its nominees) respectively under the Letter of Credit and payable at sight for negotiation, to the counters of BY or NBX as the case may be, against documents in full compliance with the terms and conditions of the Letter of Credit.

3.4. The negotiating bank will record a debit entry in the Trade Account maintained by them, under advice by telex to the L/C issuing bank of (i) the L/C reference number, (ii) the amount of the draft drawn and negotiated under the Letter of Credit and (iii) the value date being the date of negotiation of the draft presented under the Letter of Credit and the L/C issuing bank will record with the same value date a credit entry in the Trade Account maintained by them in a corresponding amount; provided that the credit or debit entries to the Trade Account during the currency of this Interbank Agreement shall not be recorded after the date which is fifteen (15) days before the expiry of this Interbank Agreement.

3.5. All bank charges and commissions incurred by NBX and BY in connection with this Interbank Agreement and the Letters of Credit will be borne by TCX and/or _____ (and/or its nominees) respectively and shall not be recorded in the Trade Account nor the Interest Trade Account.

3.6. The responsibility of NBX and BY under this Interbank Agreement with respect to receiving, handling and controlling documents under and in connection with each Letter of Credit as well as any other handling operations related thereto shall be governed by the provisions of the Uniform Customs and Practice for Documentary Credits (Revision 1983 ICC Publication No. 400) or its subsequent revisions.

3.7. In the case of exports from country X the National Shipping Corporation may have the first right of refusal subject to competitive freight rates and availability of vessel.

Article 4

4.1. All invoices as well as all banking correspondence on any documents regarding the transactions under this Interbank Agreement will be expressed in U.S. Dollars and will be marked "TCX _____ Agreement of _____ 19..."

Article 5

5.1. In the event that there remains any balance on the "Trade Account" as of the expiry of this Interbank Agreement, which includes all interests accrued up to that expiry, by mutual written consent of NBX and BY this Interbank Agreement shall be extended for 90 days to facilitate reduction of such balance through delivery of goods and by adjustment, if necessary in individual item ceilings, by mutual co-operation.

5.2. The balance recorded on the Trade Account as of the end of such extended period, which includes all interest accrued up to the end of that period, will be settled between NBX and BY through actual transfer of funds in U.S. dollars to such account as designated by the relevant bank, such transfer to be made within a period of forty (40) days of the end of that period or such other period as mutually agreed between NBX and BY provided that such balance recorded in the Trade Account shall bear interest at the same rate set forth in Article 2 hereof until the settlement of the Trade Account has been made pursuant hereto; such accrued interest shall be paid by actual transfer of funds in U.S. Dollars to the same designated account as above, simultaneously with the settlement of the Trade Account.

5.3. Notwithstanding anything contained in this Agreement, the final cash settlement in U.S. Dollars under Article 5.2. above shall not exceed the limit of 5 million U.S. Dollars (US\$5,000,000).

Article 6

6.1. NBX and BY will furnish to each other a monthly statement of the Trade Account and the Interest Trade Account within ten (10) days after the end of each calendar month, provided that in the event this Interbank Agreement shall expire on a day other than the day at the end of any calendar month such statement shall be furnished within ten (10) days after the expiry of this Interbank Agreement.

6.2. Unless, within twenty (20) days after the receipt of the respective statement, either bank notifies the other bank by telex of their comments on the above statement to the contrary, such statement will be considered accepted.

Article 7

7.1. Each of NBX and BY hereby covenants that it has the power to enter into this Interbank Agreement and has taken all necessary corporate or other action in connection herewith, and has obtained all necessary governmental approvals necessary to authorize the execution and performance of this Interbank Agreement.

Article 8

8.1. If at any time any provision hereof should be or become illegal, invalid or unenforceable, neither the legality nor validity nor enforceability of the remaining provisions hereunder shall in any way be affected or impaired unless such provisions are considered essential with regard to the validity or performance of this Interbank Agreement. Should unforeseen difficulties arise in connection with any banking operations related hereto, the affected party may propose the appropriate solution thereof, and by mutual written consent any necessary changes shall be incorporated in this Interbank Agreement and shall thereafter constitute an integral part of this Interbank Agreement.

Article 9

9.1. In the event that any payment to be made hereunder shall be made subject to any taxes, levies or charges (hereinafter collectively called the "Charges") such Charges shall be absorbed by the paying bank in order to ensure that the other bank receives a net amount in U.S. Dollars equal to the full amount which it would have received had payment not been made subject to any of such Charges.

Article 10

10.1. Any amendment, in whole or in part, of this Interbank Agreement may be made only by mutual written consent of NBX and BY.

Article 11

11.1. Any notice, request, instruction or statement made or given in respect of this Interbank Agreement by either of NBX and BY shall be in writing and duly signed by its authorised officer or by authenticated telex, provided that in case such notice, request or instruction is made or given by telex its mail confirmation must be always followed. All such notices, requests, instructions, statements or other communications to or upon the respective parties hereto shall be deemed to have been duly given and made.

(a) at the time of delivery, if delivered by hand,
(b) on despatch, if given or made by telex (with confirmed answerback), or
(c) seven (7) days after being mailed, if sent by airmail, to the party to which such notice, request, instruction, statement or other communication is required or permitted to be given or made under this Interbank Agreement addressed as follows:-

(i) If to NBX
Mailing Address

Attention

Telex No.

Telegram

(ii) If to BY
Mailing Address

Attention

Telex No.

(iii) With respect to the Letters of Credit, all communications shall be made to such addresses as specified in each Letter of Credit

or to such other address as either of the parties hereto may hereafter specify in writing to the other party. NBX and BY may designate additional addresses for particular communications as required from time to time, and may change any address, by notice given ten (10) days in advance of such additions or changes.

Article 12

12.1. All correspondence relating to this Interbank Agreement shall be made in English.

Article 13

13.1. Neither NBX nor BY may assign any of their rights or benefits or their obligations under this Interbank Agreement to any third party without prior written consent of the other party.

Article 14

14.1. NBX and BY agree that this INTERBANK AGREEMENT is entered into for the implementation of the transaction contemplated under the Trade Agreement while the INTERBANK AGREEMENT is in its nature and effect separate from the Trade Agreement, and that any reference to the Trade Agreement shall be considered to be made only for the purpose of clarification. Both banks further agree that this Interbank Agreement constitutes the entire agreement between them in connection with the implementation of the Trade Account and the Interest Trade Account, and that their rights and obligations arising therefrom shall be determined only on the basis of the terms and conditions contained herein.

Article 15

15.1. This Interbank Agreement shall be governed by and construed in accordance with the laws of England.

Article 16

16.1. In the case of any dispute arising from the implementation of this Agreement the matter shall first be brought to the attention of the highest management of the two participating banks for settlement and, if not resolved, shall be finally settled under the rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules, and such arbitration shall take place in Paris.

Article 17

17.1. This Interbank Agreement shall be effective from the date of its signing and will remain in force until one year after the date of its signing or until the Trade Agreement expires or is terminated or cancelled for any reason, unless otherwise mutually agreed in writing between NBX and BY.

17.2. This Interbank Agreement has been made and signed in English in 2 copies, both being equally authentic.

In WITNESS WHEREOF each of the parties hereto has caused this Interbank Agreement to be duly executed by its duly authorised officer as of the ____ day of ____ 19.....

For and on behalf of

For and on behalf of

Appendix 3 ANNOTATED BIBLIOGRAPHY

A vast literature on countertrade has arisen in the last few years but much of it is repetitive, expensive and almost exclusively concerned with the subject from the point of view of industrialised countries.

This bibliography does not set out to be comprehensive but, instead, is selective in terms of content likely to be valuable to interested parties in developing countries.

ACECO - ASSOCIATION POUR LA COMPENSATION DES ECHANGES COMMERCIAUX (1983). Practical Guide to Countertrade. Paris. 149pp.

Describes the various forms of countertrade and the reasons for its recent growth and development. The main emphasis is on contractual considerations and methods of avoiding some of the pitfalls inherent in this form of trading. Also included are brief synopses of various country policies.

AGARWALA P.N. (1985) Countertrade Policies and Practices of Selected Asian Countries and Their State Trading Organisations. 92pp. Geneva. UNCTAD.

Report based on discussions with the Ministries, Directorates and other organisations in India, Indonesia, Malaysia, Thailand, Philippines, Singapore, Hong Kong, Bangladesh and Nepal. Included in the report are assessments of performance of countertrade in meeting objectives and the effects on prices and trade with a conclusion evaluating the success of countertrade and recommendations for the future.

ASTRO - INTERNATIONAL ASSOCIATION OF STATE TRADING ORGANISATIONS OF DEVELOPING COUNTRIES (1986) Complementary Manual of Comprehensive Reference Service on Countertrade. Ljubljana. 408pp.

The manual was produced to accompany the ASTRO publication (in two volumes) of countertrade country profiles. It discusses in some detail the following procedures when entering into countertrade: negotiations and contractual considerations, financing of countertrade, insurance and discounting. Also included are discussions on various specialist areas of countertrade, particularly buy-back arrangements and switch trading.

BUSINESS INTERNATIONAL. Exploring Countertrade Opportunities. 56pp.

Concise descriptive report on the reasons behind the current upsurge in countertrade, the various responses adopted by developing countries and multinational corporations and the mechanisms behind various forms of countertrade. Throughout the report there are references to the advantages and disadvantages of using countertrade to fulfil economic objectives. The report is aimed principally at the private business sector.

BUSINESS INTERNATIONAL (1984) Exploring Countertrade Opportunities in Africa. 166pp. Geneva. Business International

From the point of view of companies based in industrialised countries, this report describes the climate for countertrade in Africa. It reviews the policies of the major countries and provides contacts and addresses.

ECE (1986) Guide on Drawing Up International Contracts for Compensation Based Transactions. Geneva. U.N. Economic Commission for Europe. 27pp.

A step-by-step guide to the major considerations involved in producing a contract for a counterpurchase deal with explanations as to why specific clauses need to be included. A ten page annex provides a model counterpurchase contract between the principal parties.

HODARA, I. (1985) Countertrade - Experiences of some Latin American Countries. 49pp. Geneva. UNCTAD.

Brief introduction on the forms, the motivations for, and the costs of countertrade followed by a more in-depth description of the experiences of Argentina, Brazil and Hungary.

JONES S.F. (1984) North/South Countertrade: Barter and Reciprocal Trade with Developing Countries. The Economist Intelligence Unit, Special Report No. 174. London. The Economist Publications. 97pp.

This report describes the growth of countertrade with developing countries in the context of world trade. It also examines attitudes and policies, and identifies the beneficiaries of countertrade transactions. A fairly comprehensive discussion of the developing countries involved in the practice, as well as the products that have been countertraded, is included.

KOPINSKI T.C. & NEUBAUER K. Eds. (1984). Threats and Opportunities of Global Countertrade Marketing, Financing and Organisational Implications. Geneva. Business International.

A summary of the reasons behind countertrade from the viewpoint of all the major players is followed by a discussion of the various techniques employed from a practical viewpoint. Included is a section on developing a countertrade strategy. The final section of the report reviews how countertrade is developing in Third World countries. The main beneficiaries of this report would be private companies in developed countries as the emphasis is on overcoming likely difficulties such organisations are likely to face.

KOPINSKI T.C. (1987) Countertrade Policies and Practices by Selected African and Latin American Countries. Geneva. UNCTAD. 51pp.

Following a short discussion of the rationale behind current countertrade policies adopted by developing countries and the impact of the practice on trade flows and pricing, the paper goes on to discuss current practices in selected African and Latin American countries. The final section discusses some of the implications of countertrade and makes some recommendations for the future.

MANUFACTURERS HANOVER TRUST CO. (1983) Countertrade: Latin America. 78pp.

Overview of the countertrade environment in 12 Latin American countries. Included is a short summary and history of countertrade, prevailing countertrade requirements and practices, each country's primary trading partners and the products available for countertrade.

MANUFACTURERS HANOVER TRUST CO. (1984) Countertrade Asia/Pacific.

Follows a similar format to that described above for 11 of the major Asia/Pacific countries excluding Japan.

MIKTON J.R. (1987). An Overview of Industrial Compensation Arrangements in East-West and North-South Trade: A Case History Approach. A paper from the Asian Regional Workshop on Industrial Co-operation and Trade Expansion through Buy-back Arrangements. Bangkok. 39pp.

A brief introduction to the history and structure of East-West buy-back arrangements and a discussion regarding the financing and administration involved in establishing such arrangements, based on specific examples. Throughout the paper some references are made to developing countries and how procedures may differ in those countries. A few brief examples of North-South buy-back deals are described.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (1985) Countertrade: Developing Country Practices. Paris. OECD. 40pp.

A short review of the reasons behind the rising volume of countertrade being undertaken by developing countries. The book examines the motivation and extent of countertrade practices with some comments as to its viability as a mechanism for solving some of the economic difficulties encountered by developing countries. There is also a short listing of countertrade transactions.

OUTERS-JAEGER I. (1979) The Development Impact of Barter in Developing Countries. Paris. OECD. 129 pp.

This book is based on a number of case studies on the impact of barter and barter trade on the economies of Egypt, India, Ghana, Sri Lanka and Nepal, undertaken in 1977. Apart from this comparative analysis it provides a theoretical discussion and general overview of the role of barter-like trade in developing countries' foreign trade. It was aimed at providing policy makers in developing countries with practical insights into the prospects and problems of this form of trading.

RUBIN S.M.(1986) The Business Manager's Guide to Barter, Offset and Countertrade. The Economist Intelligence Unit Special Report No. 243. London. The Economist Publications. 137 pp.

Mainly aimed as a guide to Western businessmen faced with countertrade proposals from prospective trade partners, the report describes the various forms of countertrade and provides guidance on how to deal with it. Also included are outlines of the countertrade policies, objectives and mechanisms for 16 selected countries including 10 developing countries.

UNCTAD (1986) Consideration of the Present Situation and Current Problems in the Field of Trade Financing. Trade Financing for Developing Countries: Some Aspects of Current Difficulties and Policy Responses. Geneva. UNCTAD. 71 pp.

Discussion of financing and payments as a result of the international debt crisis including a short section on the pressures to engage in countertrade.

Appendix 4 SPECIALIST PERIODICALS

1. Countertrade and Offset Intelligence

P.O. Box 2, Chipping Norton, Oxford OX7 5QX, U.K.

- Monthly Newsletter
- Principally a newsletter containing brief articles on recent events and deals world-wide. Each issue contains a feature describing in greater detail a specific aspect of countertrade.
Annual Subscription US\$295 (£205 U.K.)

2. Corporate Barter & Countertrade

Box 3034, Mission Viejo, CA 92690, U.S.A.

- Monthly Newsletter
- Newsletter outlining recent deals and policy changes. The emphasis of the publication is very much on U.S. companies, U.S. policy and how changing economic patterns are likely to affect these.

3. Countertrade & Barter, published by Metal Bulletin Journals Ltd. Metal Bulletin Plc., Park House, Park Terrace, Worcester Park, Surrey, KT4 7HY, U.K.

- Bi-monthly publication
- Successor to Countertrade and Barter Quarterly. This magazine contains specific countertrade related articles produced by both the editorial staff and those involved in the practical organisation and implementation of countertrade deals. Articles providing specific country and company profiles or analyses of specific techniques are often included. Regular features include book reviews and conference dates and venues.

Subscription rates £40:\$65; U.K. and Overseas Seamail; £51:\$83 Airmail Europe; £52:\$84.50 Airmail North Africa and the Middle East. £56:\$91 Airmail North and South America, Sub-Saharan Africa, India and Pakistan. £58:\$94 Airmail Australasia and Far East.

4. Countertrade Outlook

D.P. Publications Co. P.O. Box 3141 Alexandria, VA 22303 U.S.A.

- Weekly Newsletter
- Describes latest developments in worldwide countertrade activity, concentrating on deals and policies. Emphasis is placed upon the various parties actively involved in each transaction.
Annual subscription, US\$384 and air mail charges.

Other publications regularly containing articles on countertrade include:

Financial Times
Euromoney Trade Finance Report
South Magazine
The Economist
Middle East Economic Digest

Appendix 5 SHORT PROFILES OF THE COUNTERTRADE SYSTEM IN SELECTED COUNTRIES

Short profiles are presented in this appendix of the countertrade systems in four countries:

- (i) India
- (ii) Indonesia
- (iii) Malaysia
- (iv) Zimbabwe

In the case of Indonesia, the profile includes copies of a number of documents which relate to that country's countertrade system.

The information concerns the policies and practices which were applicable in each country in the early part of 1987 and, clearly, these may change over time.

No attempt is made in these profiles to present a critical appraisal of the policies in the countries concerned, which would be inappropriate for these guidelines, but simply to give a guide to the countertrade approaches adopted.

1. INDIA

In many respects, India may be considered well-suited to countertrading on the basis of the criteria which were suggested in Section 2.3. The country has a substantial and diversified production/export base, a large import absorption capacity, a relatively strong financial position and it imports a large number of goods and projects on commercial terms, thereby offering opportunities for making countertrade demands to suppliers. India also has established organisations in the trading and banking sectors. India is involved in a wide range of types of countertrade including bilateral trade and payments agreements, military offset, counterpurchase and barter-type deals. India was also involved in a number of STAs in the 1960s and 1970s; this policy was later abandoned but some negotiations on starting new STAs with major international trading houses began again in 1987.

The government department with responsibility for countertrade matters is the Ministry of Commerce. The trading responsibilities within countertrade deals are mostly handled by two large parastatal organisations, the State Trading Corporation (STC) and the Minerals and Metals Trading Corporation (MMTC).

India has quite a long history of involvement in bilateral trade agreements, particularly with Eastern bloc countries. The long term trade and payments agreements often run for a period of five years and include references to a general list of products and indicative values. Additionally, there are usually annual trade protocols which specify actual products and quantities to be traded. Actual prices paid are usually fixed at the time of contract. Some of the agreements operate through Rupee accounts.

India has operated a counterpurchase system for some time for products imported by STC and MMTC. However, a considerable expansion of the counterpurchase system appears likely following the announcement in January 1987 of counterpurchase being included as an option for all public sector (non-aid funded) imports by all organisations, rather than solely STC and MMTC. In other words, India is planning to use its purchasing power to make foreign suppliers take more Indian goods. However, the system is not mandatory but is based on a tender option system, whereby foreign suppliers tendering for Indian contracts can include a willingness to counterpurchase as part of their overall bid. The counterpurchase commitment, as a percentage of contract value, is variable according to the offer made by the supplier and the Indian Government's requirements in particular cases. In early 1987 the system was only just beginning to operate and there was still a little uncertainty about which Indian products were to be allowed for export. Destinations for the Indian exports are often not specified. Penalty clauses for non-performance by foreign suppliers are mostly in the range of 3-5 per cent.

A "weightage" system is operated whereby the extent of the counterpurchase obligation met depends on the type of products exported; for example, a \$5 million dollar counterpurchase obligation may be satisfied by taking out \$10 million of primary products or \$2.5 million of engineering goods.

In addition to the types of countertrade already mentioned, there are also many ad hoc transactions, often of the barter type, involving the use of escrow accounts. In a number of cases the partners for such deals have been other developing countries. India's aim in such deals is to achieve some additional exports, including construction contracts, and the destination of the Indian exports is usually specified.

2. INDONESIA

In 1982 the Government of Indonesia decided to issue counterpurchase regulations for linking government procurements exceeding 500 million Rupiah in value with exports, excluding petroleum and natural gas. Imports financed through soft loans and loans and credits through the World Bank, the Asian Development Bank, etc. were also exempted. A copy of the guidelines is attached.

When an exporter tenders for government contracts he is also obliged to submit a Letter of Undertaking. This declares that the applicant is willing, either directly or through a third party, to accept a 100 per cent counterpurchase based on the value of his exports to Indonesia. (A copy of this Letter of Undertaking is attached.) This document determines the way countertrade has to be effected. The products for export from Indonesia through countertrade are specified in a number of lists produced by the Department of Trade, entitled Books A.1, A.2, B.1, B.2.

On acceptance of the tender, the Department of Trade accepts the Letter of Undertaking with a Letter of Approval. Once the exporter has received such approval, the Department of Trade requires the partner country/company to submit a draft of Annex A (copy attached) specifying the conditions of counterpurchase, together with the Assignment Agreement (copy attached) if a third party is being used. The third party agent must be approved by the Department of Trade. At the same time, the Indonesian customer informs the Department of Trade of the final counterpurchase amount and time of fulfilment.

The Department of Trade will then confirm the Assignment Agreement and issue Annex A and inform the Indonesian partner to go ahead and sign the contract and finalise the financing agreement.

Once the transaction is under way, the foreign partner has to provide evidence of the counterpurchase by submitting PEB forms (Annex B) to the Department of Trade.

There is a penalty clause within the Letter of Undertaking obligating the foreign party to pay a penalty of 50 per cent of the non-fulfilled value of the countertrade in cases of non-fulfilment. In situations where the counterpurchase products selected become unavailable, then the countertrade requirement or period of fulfilment may be renegotiated.

Copies of five documents are attached:

1. Guidelines for the Implementation of Linking Government Procurement from Imports with Indonesian Export Products Excluding Petroleum and Natural Gas.
2. Letter of Undertaking.
3. Annex A.
4. Assignment Agreement.
5. Annex B.

1. ISSUED BY THE INDONESIAN DEPARTMENT OF TRADE
GUIDELINES FOR THE IMPLEMENTATION OF LINKING
GOVERNMENT PROCUREMENT FROM IMPORTS WITH
INDONESIAN EXPORT PRODUCTS EXCLUDING
PETROLEUM AND NATURAL GAS

Based on the decision of the Special Cabinet Session on Economic, Finance and Industry held December 2, 1982, the following guidelines are herewith announced concerning the linking of imported government procurements with Indonesian export products excluding petroleum and natural gas:

I GOVERNMENT PROCUREMENTS WHICH ARE LINKED

1 Imported government procurements which will be linked to Indonesian export products outside of petroleum and natural gas are those imported products whose procurement are financed from the state budget (APEN) and from export credits. The obligation to link government procurements with exports applies to procurements by Departments, Non-Departmental Government Institutions and State-Owned Enterprises which are coordinated under Presidential Decree No: 10, 1980 (KEPPRES No: 10 - 1980).

2 Excluded from this linking are:

a those procurements whose sources of financing originate from concessional loans and credits from the World Bank, Asian Development Bank and Islamic Development Bank.

b those domestic components which constitute a part of the contracts signed by foreign contractors, which among others include service components, goods and taxes and levies.

c those services which are used by government institutions requiring specialized knowledge such as foreign accountants, legal specialists, surveyors, consulting services, purchases of technology (patent) and other similar services.

d those import procurements involving joint ventures between state enterprises and foreign investors.

II SPECIFIC MEASURES FOR LINKING

1 Export products which are subject to these linking procedures are agricultural products, manufactured products and other products outside petroleum and natural gas. The Department of Trade and Cooperatives will periodically issue a list of export products which are eligible to be linked to imports from specific countries or group of countries together with a list of exporters and commodity associations.

2 Foreign suppliers shall undertake or arrange purchases of Indonesian exports by one or several enterprises affiliated or otherwise related to them. The third party enterprise from other countries which is acceptable to the Indonesian side could become the party implementing the actual report.

3 Foreign suppliers intending to import Indonesian goods in connection with government procurements shall choose one or several goods which they intend to import.

4 The value of Indonesian exports which are linked to a government procurement must be equal to the value of the government procurement being imported and considerations must be taken with respect to delivery period. The values applied to both are on FOB basis.

5 In the supply contracts of Indonesian export products the total value of exports in the scheme must be specified as being equal in value to the government procurement contracts. The prices of the export products used in the contracts must be the prices of export products in effect at the moment the contracts are signed.

6 Foreign importers and Indonesian exporters must undertake their negotiation directly and sign the contracts according to prevailing commercial practices but with one additional clause attached, merely a clause concerning linkage with the government procurement.

7 Purchases by foreign importers connected with government procurement must be additional to the value of the normal trade transactions with the countries concerned. The Department of Trade and Cooperatives, together with the commodity associations, will monitor these developments.

8 Government procurements from imports will be concluded according to international prices and the implementation of Indonesian exports linked to government procurements must be implemented with international prices prevailing at the time of the delivery of the goods.

9 Exports of Indonesian goods linked to government procurements are directly channelled to the country of origin of the procurements. In cases where government procurements for overseas are supplied from more than one country, the linking rule would be applied to the country of origin of the principal winner of the contract.

10 Export to a third country is permitted only if the third country concerned is a new area for Indonesian exports for the specific product in question.

11 Transactions of Indonesian export products would be implemented using US Dollars as the reference currency or using other convertible currencies, so long as those currencies are used by the suppliers of goods purchased by the Indonesian government.

12 Contracts between Indonesian exporters and foreign importers in this connection may not constitute "future buying" in the sense of hedging in order to protect the position of importers or exporters against fluctuation of prices in a future period.

III PROCEDURE FOR IMPLEMENTING TENDERS

1 Departments, Non-Departmental Institutions, and State-Owned Bodies intending to make government procurements through imports shall provide to tender an attached list of exports which will be linked to the procurement as well as a list of the names of exporters. In the tender document, the conditions of the linkage requirement shall already be attached.

2 Representatives of the Department of Trade and Cooperatives shall assist the tender committees to give explanations and clarifications to prospective tenderers for the projects and goods which will be opened for bidding.

3 Participants to the bidding, in submitting their letters of offer, shall already have stated their readiness to buy Indonesian exports if the participants in question are awarded a contract.

4 The bidding committee shall evaluate tenders on the basis of letter of intent in accordance with procedures currently prevailing.

5 The bidding committee will determine a "short list" of 3 candidates as potential winners of the tender whose identity shall be consequently transmitted to the Team for Guiding the Supplies of Government and Equipment. (Team KEPPRES No 10.)

6 The Team for Guiding the Supplies of Government Goods and Equipment shall determine of the three winning candidates. The winners, having been informed, shall submit a letter of Undertaking already agreed to by the Department of Trade and Cooperatives, Directorate General of External Trade. The sample of the letter of Undertaking can be included with the sample tender document.

7 The Letter of Undertaking shall be signed by the foreign supplier. If the Letter of Undertaking is signed by an agent/representative of the supplier, then the said Letter must be countersigned by the supplier and the supplier shall give full power to agent/representative to sign the said Letter of Undertaking.

8 The Team for Guiding the Supplies of Government Goods and Equipment shall announce its consent when the Letter of Undertaking is received and agreed upon by the Department of Trade and Cooperatives.

IV SUPERVISION ON THE IMPLEMENTATION OF LINKAGE POLICY

1 Parties awarded a tender are obliged to submit a copy of the contract they have concluded with Indonesian exporters to the Secretariat of the Directorate General for External Trade of the Department of Trade and Cooperatives.

2 Export contracts for Indonesian export products must be undertaken in stages and on a regular basis during the life of a contract and must be completed at the latest 3 months prior to the termination of the period of contract for the government procurement.

3 The Department of Trade and Cooperatives shall report to the team of KEPPRES No 10 on the progress of exports of each of the executors of exports linked to the government procurements.

4 Final payment to the foreign supplier will be made after the export obligation is realized.

V SANCTION

Foreign suppliers are held responsible for the settlement of export undertakings linked to government procurement. If the contracts in question cannot be completely fulfilled, the foreign suppliers concerned shall be liable to a penalty equal to 50% of the value of the portion of exports which have not been purchased.

VI INFORMATION

Further information on the export products linked to government procurement can be obtained from:

- (1) Secretariat of the Directorate General
for Foreign Trade
Department of Trade and Cooperatives
Jalan Mohammad Ichwan Ridwan Rais No 5
Jakarta
Tel: 352919

- (2) Directorate Export for Agricultural Products
Department of Trade and Cooperatives
Jl Abdul Muis 87
Jakarta
Tel: 348660

2. LETTER OF UNDERTAKING

Indonesian Countertrade documentation

N-Version

(LETTERHEAD OF TENDERER)*

July, 1983

Department of Trade
Republic of Indonesia,
Directorate General for Foreign Trade
Jalan Abdul Muis 87
Jakarta
INDONESIA

c/o (Insert name of Department, Agency or
Corporation issuing Tender)

Dear Sirs:

We refer to (describe subject matter of tender and tender number) issued on -----, 198-- by (insert name of Indonesian Department, Agency or Corporation issuing tender) and to our tender document no.----- submitted on-----,198-- in response thereto.

We hereby irrevocably undertake during the period from the date of award of the contract relating to such tender until final acceptance (or equivalent) of our work and services thereunder or until completion of deliveries thereunder, as the case may be:

1. to purchase, or to cause to be purchased by one or more of our affiliated companies in the country or countries** to be confirmed by the Department of Trade in a letter in the form of Annex A hereto or by third parties located in any other country or countries acceptable to you, agricultural and/or industrial products contained in Books A.1 and A.2, each entitled "List of Indonesian Export

* This letter should be signed and submitted by the Tenderer. If the Tenderer is a foreign contractor/supplier, this letter should be signed by the foreign contractor/supplier and not by its Indonesian agent, partner or representative, if any.

** The Department of Trade will normally only confirm the country of nationality of the contractor/supplier. However, depending upon the circumstances of any given contract, other countries may be confirmed by the Department.

"Commodities Available for Additional Exports in 1982", published in January 1982 and March 1982, respectively, by the Department of Trade, and/or such other Indonesian products as you may approve in writing (hereinafter, collectively, the "Products"), from one or more of the commodity associations or exporters named in Books B.1 and B.2, each entitled "List of Indonesian Commodity Associations and Exporters", published in January 1982 and March 1982, respectively, by the Department of Trade, and/or from other duly licensed Indonesian exporters (hereinafter, collectively, the "Exporters"), in an amount at least equal to the foreign currency value of all equipment, materials and products to be supplied by us from non-Indonesian sources pursuant to the terms of the above-described contract, such value to be agreed with the Department of Trade and confirmed in a letter in the form of Annex A hereto;

2. to use the Products, or to resell the Products for use, or to cause the Products to be used or resold, in the country or countries to be confirmed as aforesaid, unless with your specific authorization we are permitted to use the Products, or to resell the Products for use, or to cause the Products to be used or resold, in any other country or countries;

3. to purchase the Products, or to cause the Products to be purchased, before the end of the term of the contract relating to the above-described tender and, in any event, to start the purchase or to cause to be purchased, within six (6) months after the date of award of such contract; and

4. to submit, or to cause to be submitted from time to time to the Department of Trade, by letter in the form of Annex B the relevant PEB forms and such other evidence of the shipment of Products purchased pursuant to this undertaking as will permit the Department of Trade to monitor compliance herewith.

In connection with our irrevocable undertaking contained herein, this will confirm our understanding that:

a. the commercial terms, including those relating to price and delivery, in respect of each purchase of Products from an Exporter shall be negotiated by us or by other purchasers thereof at the time of actual purchase;

b. the amount of each such purchase to be applied towards our obligation hereunder shall be equal to the invoiced purchase price of the Products purchased, excluding, however, any shipping costs included in such invoice and any taxes or customs duties charged in connection therewith;

c. the amount of each such purchase (if measured in a currency other than the currency in which our obligation hereunder is measured) shall be applied against our obligation hereunder at exchange rates (as quoted by Bank Indonesia) prevailing at the date of the Exporter's invoice issued in respect of such purchase;

d. if we or our affiliated companies in the country or countries to be confirmed as aforesaid have traditionally purchased products from Indonesian exporters, our undertaking contained herein shall be viewed as representing a commitment over and above such traditional level of purchases, it being the spirit and intention of such undertaking that purchases of Products hereunder shall be in addition to such traditional level of purchases;

e. if the contract relating to the above-described tender should be prematurely terminated, our undertaking contained herein shall also terminate without further obligation on our part; and

f. (i) if, during the course of performance of our obligations contained herein, we should be of the view that sufficient Products either are not available in Indonesia or are not of suitable export quality or internationally competitive in price, you shall, at our request, review with us the actual circumstances at the time and,

(ii) if, after both parties have reviewed the matter in good faith and in the spirit of cooperation with a view to reaching a mutually acceptable solution you and we agree that we are not able to comply with the requirement of our undertaking contained herein because sufficient Products either are not available in Indonesia or are not of suitable export quality or internationally competitive in price, you shall modify such requirements to take account of actual circumstances at the time, which modifications may include an extension of the time during which our obligations contained herein must be satisfied.

If we fail to comply with our undertaking contained herein we hereby agree to pay to you as liquidation damages an amount equal to 50% of the difference between the total value of Products actually purchased pursuant to this undertaking and the foreign currency amount to be confirmed as aforesaid.

In connection with our undertaking contained herein, we hereby represent and warrant to you that (i) we have full power and authority and legal right to enter into this undertaking and to perform and observe the terms and provisions hereof, (ii) we have taken all necessary legal action to authorize, execute and deliver this undertaking, (iii) this undertaking constitutes our legal, valid and binding obligation, and (iv) no law, rule or regulation or contractual or other obligation binding on us is or will be contravened by reason of our execution and delivery of this undertaking or by our performance and observance of the terms and provisions hereof.

This undertaking shall be binding upon our successors.

Very truly yours,
(NAME OF TENDERER)

Affix
1000 RP.
Stamp

By-----

Name:
Title:

3. ANNEX A

ANNEX A

(LETTERHEAD OF DEPARTMENT OF TRADE)

-----, 198--

(Address of Tenderer)
(Please refer to code no. C/P)

Dear Sirs:

We refer to-----tender No.-----
issued on -----, 198--, by (insert name of Indonesian Department, Agency
or Corporation issuing tender) (the "Tender") and to your tender document
submitted in response thereto and the Letter of Approval No. -----
issued on -----, 198-- by the Minister/State Secretary acting as the
Chairman of the Government Supervising Team for the Government Procurement.

We acknowledge receipt of your Letter of Undertaking of -----, 198-- a
copy of which is attached hereto and initialled for identification by the
Department of Trade.

In accordance with the provisions of paragraph number 1 of such Letter of
Undertaking, we confirm the following:

1. The foreign currency FOB value of all equipment, materials and products
to be supplied by you from non-Indonesian sources pursuant to the terms of the
contract relating to the tender shall be-----.

2. The countries referred to in such paragraph shall be ----- and
other countries provided that your counterpurchase shall not cause any friction
in the respective destination, nor to cause any friction with existing trade
activities by Indonesian traders.

3. Affiliated companies which may purchase Indonesian agricultural and
industrial products in satisfaction of your obligation under such Letter of
Undertaking shall be -----

4. The Counterpurchase obligations contained in such Letter of Undertaking
must be satisfied by you on or before----- (insert date of final
satisfaction) unless, pursuant to paragraph 4.f thereof, such date is extended.

Your signature in the space marked "Agreed" below shall be conclusive
evidence of your agreement to be bound by the terms of your Letter of
Undertaking of -----, 198--, as supplemented by the provisions hereof.

Very truly yours,
DEPARTMENT OF TRADE

AGREED: (TENDERER)
By-----

By-----

4. ASSIGNMENT AGREEMENT

ASSIGNMENT AGREEMENT

THIS AGREEMENT, dated (insert date), between (insert name of Assignor)
(The "Assignor") of (insert address of Assignor) and -----
----- (the "Assignee") -----

WHEREAS, the Assignor has undertaken certain obligation with respect to the purchase of commodities/goods from Indonesia as evidenced by a counterpurchase Letter of Undertaking dated----- and an Annex A Letter, ref. No.----- dated----- code No. C/P----- (such Letter of Undertaking and Annex A letter hereinafter collectively referred to as the "Letter of Undertaking").

WHEREAS, the Assignor desires to assign to the Assignee, without recourse to the Assignor, all of its rights and obligations under and with respect to the Letter of Undertaking;

WHEREAS, the Assignee desires to accept such assignment; and

WHEREAS, the Department of Trade and the Republic of Indonesia is willing to consent to such assignment;

NOW, THEREFORE, the Assignor and the Assignee hereby agree as follows:

1. The Assignor hereby assigns to the Assignee, without recourse to the Assignor, all of its rights and obligations under and with respect to the Letter of Undertaking.

2. The Assignee hereby accepts such assignment and specifically agrees, for the benefit of the Department of Trade of the Republic of Indonesia, to assume and be bound by all of the terms and conditions of the Letter of Undertaking, and in particular those relating to the payment of liquidated damages in the event the Assignee fails to comply with the terms of the Letter of Undertaking, as if Letter of Undertaking had originally been executed by the Assignee.

3. This Assignment Agreement shall become effective on and as of the date on which the Department of Trade of the Republic of Indonesia shall consent thereto.

IN WITNESS WHEREOF, the Assignor and the Assignee have executed this Assignment on the date and year first above written.

(Insert name of Assignee)

(Insert name of Assignor)

By-----

By-----

C O N S E N T

The Department of Trade of the Republic of Indonesia hereby consent to the foregoing assignment, thereby releasing (insert name of Assignor) from its obligation under and with respect to the Letter of Undertaking, in consideration of such obligation, together with all right relating thereto, having been assigned to and assumed by the Assignee.

DEPARTMENT OF TRADE

By-----

5. ANNEX B - PEB FORMS

ANNEX B

Department of Trade,
Republic of Indonesia,
Directorate General for Foreign Trade
Jalan Abdul Muis No. 87
Jakarta
INDONESIA

Attention:

Dear Sirs,

We refer to tender of _____ No. _____ dated _____
and to the related counterpurchase Letter of Undertaking dated _____
Code No. CP/ _____ (such Letter of Undertaking and annex A Letter
hereinafter collectively referred to as the "Letter of Undertaking").
We attach hereto copies of "Pemberitahuan Ekspor Barang" (PEB) forms and
related Bills of Lading evidencing shipment of the following commodities/goods
from Indonesia:

Description

FOB Value

We hereby represent and warrant to the Department of Trade that such shipments
comply in all respects with the Letter of Undertaking, and we therefore request
your confirmation that the above-stated FOB value of such shipment may be
applied in (partial) (full) satisfaction of the counterpurchase obligations
evidence by the Letter of Undertaking.

Assuming full application of such value, we understand our remaining counterpurchase
obligations to be US\$.....

Very truly yours,

3. MALAYSIA

Malaysia officially introduced a countertrade policy in 1983 and since that time many countertrade deals have been transacted. Two booklets have been published by Unit Khas Countertrade (the unit within the Ministry of Trade and Industry which is responsible for countertrade) which describe the policy:

- (i) Countertrade Anyone?
- (ii) Countertrade in Government Procurement.

Malaysia allows some traditional exports, such as refined palm oil, rubber and tin ingot, to be countertraded if certain conditions are met, but is particularly keen to promote the export of added-value and non-traditional items such as palm oil products, rubber goods, timber products and so on. The decisions concerning which exports are to be allowed, and to which destinations, are made on a case-by-case basis by Unit Khas Countertrade.

The following detailed description of Malaysia's countertrade policy was prepared by Malaysian countertrade officials and has been extracted from published sources.

Malaysia has since July 1983 used countertrade as an instrument to further promote trade both in her traditional and non-traditional markets. However, countertrade in Malaysia's perspective will only be an additional trading arrangement to complement the existing trading practice. As such, countertrade will be encouraged in cases which are considered suitable and beneficial to the country.

The decision for Malaysia to use countertrade is based on the consideration that Malaysia needs to consolidate and strengthen her existing markets, to diversify her export markets especially to the non-traditional markets, and to establish trade relations on a long term basis. Countertrade has become more relevant due to the increasing protectionist trend in world trade, particularly in the developed economies. Also as an aid to Malaysia's endeavour to expand trade with the non-traditional market countries that have an economic system that differs from Malaysia's, and are experiencing foreign exchange difficulties. Countertrade will also be used in connection with major government purchases from abroad, thereby helping to conserve the use of foreign exchange. Hence, countertrade in Malaysia's perspective will be encouraged both in the public and private sectors.

The Policy

Under the present countertrade policy, Malaysia will not sign a countertrade agreement with any country on a Government-to-Government basis. Nevertheless, Malaysia is prepared to sign any declaration of intent to increase trade in whatever way possible, including the use of countertrade. To this end, any countertrade agreement required by foreign countries will only involve private companies and government agencies, and agreements to be signed are for specific cases.

In short, the objectives in Malaysia's decision to conduct countertrade can be summed up as follows:-

- . to increase and promote the export of Malaysia's primary commodities, semi-manufactured goods and manufactured products
- . to diversify and create additional exports
- . to find new market outlets
- . to find markets in countries lacking foreign exchange
- . to improve Malaysia's balance of trade position with specific countries
- . to strengthen and consolidate Malaysia's export markets that are facing international competition
- . to save on foreign exchange
- . to develop a wider range of sources for imports.

Government Procurement

One major step undertaken by the government to encourage countertrade in the public sector is by directing all government departments and agencies to insert a countertrade condition in tender documents to be issued for certain government purchases and works services procurements valued at one million ringgit and above. This simply means that tenderers are invited to submit countertrade proposals when making bids for such government procurement. Countertrade condition, however, will not be included in procurement which involves financing by international lending agencies such as the World Bank or the Asian Development Bank. Procurement financed by these organisations will be exempted from such countertrade condition because it needs to be undertaken in line with the lending agency's stipulations.

Although tenderers need not necessarily propose countertrade when making bids for government procurement, they can propose countertrade to enhance their bids. A countertrade proposal is one of the factors to be considered in identifying a preferred tenderer when price, technical specifications, and other considerations have been evaluated and are found to be comparatively equal. A comprehensive countertrade offer could well be a deciding factor in such circumstances.

Countertrade proposals from tenderers will only be accepted if they conform to the following requirements:

- . the exports must be to the country of origin of the tenderer
- . the exports must be in line with Malaysia's export interest
- . the exports must be additional to and will not displace sales that Malaysian exporters are making or could reasonably be expected to make
- . the exports must be for new markets (third countries)
- . the exports must be in such a manner as not to prejudice the reputation of Malaysia as a quality supplier or disrupt Malaysia's commercial interest.

CT in the Private Sector

Since countertrade is only an additional trading arrangement to complement Malaysia's existing trading practice, Malaysian private sector need not necessarily conduct countertrade. They may undertake countertrade arrangements whenever deemed suitable and beneficial to them. The government will encourage and assist them in their endeavour.

Countertrade Countries

Countries with whom Malaysia may conduct countertrade have been categorised and these can be summed up as follows:-

- (1) Countries which will be awarded major government contracts, such as for construction projects, supplies, works and services. For these countries, countertrade will be used to promote the sales of certain primary commodities, semi-manufactured and manufactured products.
- (2) Countries with which Malaysia is experiencing persistent trade deficits.
- (3) Developing countries which are important and growing markets for Malaysian commodities, certain semi-manufactured and manufactured products.
- (4) The Socialist bloc countries.
- (5) Developing oil producing/exporting countries.

Products for Exchange

As for products to be exchanged in line with the government's policy on countertrade, the following criteria should be used:

1. Malaysian Goods and Commodities for Exports

All Malaysian export products, whether primary commodities, semi-manufactured or manufactured, may be used for countertrade transactions on the following basis:-

- (a) Countertrade will not be used for primary commodities which are not facing any problems in overseas markets. It will not be used in countries which have foreign exchange to purchase such goods.
- (b) Countertrade that involves Malaysian primary commodities shall be conducted preferably with countries that are facing foreign exchange shortages.
- (c) Malaysian primary commodities may be used to make up the volume in countertrade arrangements on a case by case basis.
- (d) Malaysian semi-manufactured and manufactured products are to be used in countertrade with countries where there is a problem of getting market access. Examples of those semi-manufactured and manufactured products are timber products, footwear, textiles, items of rubber, foodstuffs, electrical components and electrical goods.

However, the following commodities will not be considered for countertrade arrangements under any circumstances:

Logs and sawn logs
Crude palm oil
Tin ore and concentrate

Besides the above, goods produced in the Malaysian Free Trade Zone and in the Licensed Manufacturing Warehouses will also be excluded from the list of products for any countertrade transactions.

2. Goods and Commodities to be Imported by Malaysia

Items to be imported by Malaysia under countertrade arrangements include products which Malaysia needs in substantial quantities such as rice, sugar, iron ore, cotton, coal, animal feeds, chemical products, fertilizers, machinery and equipment, defense equipment and vehicles.

Special Unit on Countertrade

As countertrade will be a permanent feature in Malaysia's external trading arrangements, especially in the government's procurement from overseas, the government has established a Special Unit on Countertrade or Unit Khas Countertrade (UKC). This unit is the Ministry of Trade and Industry and is charged with the task to formulate and implement the government policies and guidelines on countertrade, as well as to oversee the country's countertrade activities. In short, the functions of this Unit are:

To formulate policies and guidelines on countertrade and to implement them

To act as an information collection and dissemination centre on countertrade; such information pertains to products to be exchanged and the list of potential buyers and sellers both local and overseas, of countertrade products.

To act as a reference point for receiving countertrade proposals from foreign governments and overseas and local sellers/buyers, and distributing those proposals to prospective local and overseas sellers/buyers.

To provide advisory services to government departments and agencies involved in overseas purchasing and in issuing of major tenders on the policies and guidelines regarding the incorporation of countertrade elements in their tenders, tender agreements and contracts.

To advise government departments and agencies as well as companies in the private sector in drawing up countertrade agreements.

To negotiate countertrade agreements on behalf of the government departments and agencies.

To advise government departments and agencies and companies in the private sector involved in exports on the policies and guidelines on countertrade with the object of persuading them to participate in countertrade transactions.

To monitor the progress of the implementation of countertrade.

However, Unit Khas would not be involved in the actual countertrade transaction which simply means that it would neither act as an intermediary to buy or to sell goods and services nor would it take up a trade position that would involve undertaking business or non-business risks.

4. ZIMBABWE

Zimbabwe began a countertrade policy in its present form in about 1983. The government does not favour long-term agreements. The great majority of the deals fall within the category of countertrade which is described as barter-style in these guidelines. Government sources describe the policy as being primarily concerned with increasing exports of "distressed" commodities to countries experiencing foreign exchange shortages, however the import financing aspect is also important.

Zimbabwe has become involved in bilateral countertrade deals, often with Eastern bloc countries, and triangular deals, for example, Zimbabwe/U.K./Bulgaria. Zimbabwe will not usually allow its countertraded exports to be sent to Western countries and, therefore, triangular deals are necessary in those cases where the import product originates from a Western country.

The Government of Zimbabwe has created specific machinery for the consideration of countertrade proposals. The Special Trading Arrangements Committee (STAC) is composed of representatives from six ministries:

- (i) Trade and Commerce
- (ii) Industry and Technology
- (iii) Lands, Agriculture and Rural Resettlement
- (iv) Finance, Economic Planning and Development
- (v) Mines
- (vi) National Supplies

plus representatives from the Reserve Bank of Zimbabwe, the Minerals Marketing Corporation and the Tobacco Marketing Board.

The government has also created the Working Committee on Barter and Countertrade Allocations, which is composed of representatives from four Ministries and is particularly concerned with countertrade imports.

The STAC meets on a regular (usually fortnightly) basis, and makes recommendations to the Permanent Secretary and the Minister of Trade and Commerce.

With regard to the exports allowed for countertrade, the basic philosophy is that if a product can be sold for cash it should not be allowed for countertrade. There is not a fixed list of allowable exports but the main products which have been countertraded are tobacco and short-fibre asbestos, each usually destined for markets in the Eastern bloc or other developing countries. Ferro-chrome, maize and a few other products have also been countertraded at times. Imports within countertrade are dealt with on a case-by-case basis.

The participants in countertrade deals include a fairly broad range of both public sector and private sector organisations in Zimbabwe and partner countries. International trading houses are sometimes involved as intermediaries, particularly for triangular deals which tend to be more complicated.

The actual mechanisms for operating deals vary quite considerably, but it is usual for Zimbabwe to export first and for the revenues to be lodged in an escrow account. Evidence accounts have been used in a few cases with certain Eastern bloc partners.

A short document describing the countertrade policy and the STAC has been published by the Government of Zimbabwe and is reproduced below.

THE SPECIAL TRADING ARRANGEMENTS COMMITTEE
FUNCTION

The function of the Committee is to examine, evaluate and recommend Barter/Countertrade propositions for the approval of the Minister of Trade and Commerce in accordance with the following guidelines:-

- a) Zimbabwe only barter/countertrades with countries that are experiencing foreign exchange problems, i.e. countries that cannot afford to purchase for cash.
- b) Zimbabwe only barter distressed goods, i.e. goods which are difficult to sell for cash at the time the deal is negotiated.
- c) Only enter into barter/countertrade arrangements on an ad hoc basis and will not commit ourselves to long-term agreements.
- d) Barter may be considered if it is the only way we can penetrate a particular market for our exports.
- e) Barter with traditional cash markets may be considered only for quantities over and above normal cash sales to that country i.e. if it will result in increased exports to that country without affecting our normal cash sales to that market.
- f) The goods to be exported are valued at no less than the price that such goods would obtain when sold through the normal market mechanism applicable to such goods.
- g) The goods to be imported are of an acceptable quality and are valued at a price no more than that applicable to equivalent goods from other sources.
- h) The values mentioned in (a) and (b) above shall take account of transport and insurance costs.
- i) The goods being exported are for consumption in the country with which the deal is proposed and will not without the approval of the Zimbabwe Government be allowed to pass into the hands of third parties. This is to prevent the goods passing into the hands of external speculators who can use them to disrupt markets into which similar goods from Zimbabwe are sold on a cash basis.

- j) The goods to be imported are, when appropriate, compatible with existing plant and equipment in Zimbabwe and that when applicable the necessary spares and service back-up will be provided.
- k) The goods to be imported are of a high priority nature and are not of a type produced locally, and as such are essential to the Zimbabwe economy and would otherwise have to be financed by a foreign exchange allocation.
- l) The distribution pattern for the goods to be imported is to be approved by the Ministry of Trade and Commerce or the Ministry of Industry and Technology who shall adjust commercial or industrial foreign exchange allocations accordingly.
- m) Manufactured products for export on barter should have a very low imported content.
- n) Government does not encourage barter with PTA member states because this will negatively affect utilisation of the PTA Clearing House facility which enables member states to trade with each other using their national currencies.
- o) Exporters under barter are not entitled to benefits from any export incentive schemes.

MINISTRY OF TRADE AND COMMERCE

Appendix 6 SHORT DIRECTORY OF ORGANISATIONS OFFERING COUNTERTRADE SERVICES TO DEVELOPING COUNTRIES

As already noted in Chapter 9, the most comprehensive directory of organisations providing countertrade services is that published on a biennial basis by Countertrade Outlook.

Countertrade Outlook (1986) Directory of Organisations Providing Countertrade Services.

Second Edition. Available from D.P. Publications, P.O. Box 3141, Alexandria, VA, 22302, U.S.A.

However, many of the organisations listed specialise only in providing services to Western companies. Therefore, a letter was sent to the main trading houses, banks and consultancy companies listed in the Directory, enquiring if they also specialised in providing countertrade services to governments or other parties in developing countries and whether or not they wished to be listed in these guidelines. Those which responded by filling in a simple questionnaire are listed on the following pages. All the information contained in the questionnaire answers is provided by the companies themselves.

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: ACECO (Association pour la compensation des échanges commerciaux) and ACECO PUBLICATIONS

Address: 28 avenue Hoche
75008 PARIS
FRANCE

Telephone No.: 33 / 1 / 42 25 36 40

Telex No.: 640912 ACECO

Fax No.: _____

Name/position of contact(s) BISCAGLIA AGNES Managing Director (ACECO)
LACROIX LAURENCE General Secretary (ACECO PUBLICATIONS)

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: INFORMATION SERVICES

1) PUBLICATIONS :

Practical Guide To Countertrade

1985:Les compensations dans le Sud Est Asiatique

1986:Les compensations en Amérique Latine

2) DATABASE OFFERING COUNTRIES PROFILES WITH
DETAILS OF THEIR CT EXPERIENCE

Previous experience of advising developing countries at an official level: _____

Payment terms: FF 10 500 (annual subscription fee to the database + connexion fee)

Name of respondent: Agnès BISCAGLIA

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Adams & Company

Address: Spinney House
Welton Nr Daventry
Northamptonshire
NN11 5JJ

Telephone No.: Daventry(0327) 705560 International + 44 327 705560

Telex No.: 312242 MIDTLX G

Fax No.: -

Name/position of contact(s) Nigel Adams - Partner

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Provision of independent consultancy service on all aspects of countertrade, specialising in its practical applications. Preparation of feasibility studies to assess opportunities for developing countries to use countertrade in the export promotion of non-traditional goods and commodities to finance the import of priority goods and services. Our service can be provided "in house", where required.

Previous experience of advising developing countries at an official level: Since July 1986 we have provided a countertrade consultancy service to Crown Agents, London and during that time we have advised the Government of St Vincent and ministries in Iran on countertrade. In December 1986 we advised a Middle Eastern Govt on countertrade (through a leading UK merchant bank). In January 1987 we worked with Horwath & Horwath (consultants to the Tourism, Hotel & Leisure industries) on a proposal to advise the Govt of Tanzania on CT.

Name of respondent: Nigel Adams

Payment terms: Normally paid on a daily, monthly or annual rate (invoicing clients on a monthly basis)

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Afico S.A.

Address: Route de Cigy, Budron C, Afico Trading Pte Ltd.,
CH-1052 Le Mont-sur-Lausanne, 171, Tras Street,
SWITZERLAND 07-179 Union Building,
SINGAPORE 0207

Telephone No.: 021 33 30 56 224 97 34

Telex No.: 454 320 AFI CH RS 36 897

Fax No.: 021 33 31 36

Name/position of contact(s) _____

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered
to developing countries: Countertrade, trade financing, contract and project
financing
(Brochure available)

Previous experience of
advising developing
countries at an official
level: _____

Payment terms: _____

Name of respondent: _____

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: ANDRE & CIE S.A.

Address: Chemin Messidor 7
1002 LAUSANNE
Switzerland

Telephone No.: 41 - 21 - 21.11.11

Telex No.: 24101 acsa ch

Fax No.: 41 - 21 - 21 14 29

Name/position of contact(s) Istvan Scheftsik, lic. jur.
sous-directeur

A separate sheet may be attached if you wish to list subsidiary or regional offices.

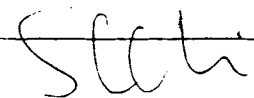
Range of services offered to developing countries:

- * Special Trade Agreements
- * Short term financing through three-cornered transactions
- * Barter for financing of projects
- * Financing of investment goods through purchase of goods in compensation

Previous experience of advising developing countries at an official level:

- * Consultant to the Gov. of Malaysia on behalf UNCTAD
- * Member of panel on symposium on C/T on behalf UNCTAD in Algeria, Tunisia
- * Guest speaker at Commonwealth Symposium on Countertrade, Jamaica

~~Pay per telex~~

Name of respondent: 

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Association of Austrian Transit- and Foreign Trade Houses

Address: Kärntner Straße 17
A-1010 Vienna

Telephone No.: (222) 52 45 35

Telex No.: 613222449 HENWI

~~XXXXXX~~: Teletex 3222449 HENWI

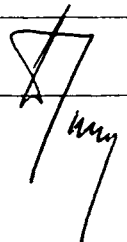
Name/position of contact(s) Dr. Wilhelm Hendricks, President
Andrea Habeler, secretary

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Countertrade growing worldwide, the Austrian expertise in unconventional trade and trade finance methods and inherent to trading houses domiciled in Vienna is fully integrated in the Association. The Secretariat being fully aware of the different potentials of the members of the Association regionalwise or product-related receives today inquiries from statal, para-statal and private institutions of about 47 countries and distributes these
Previous experience of advising developing countries at an official level: inquiries to the members. The Secretariat also relates requirements of foreign and local trading houses domiciled in Vienna to continental and overseas institutions and companies.

Dr. W. Hendricks has advised various Governments and Government agencies since 1956 on trade problems, potentials and trade financing solutions, including Australia, Egypt, Hong Kong, India, Oman, Pakistan, Thailand, Turkey, Kenya, Uganda and other Black African countries.

Payment terms: _____

Name of respondent: Dr. W. HENDRICKS 

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: AWT Internationale Handels und Finanzierungs AG

Address: Schottenring 12, 1013 Vienna, Austria

Telephone No.: 222/63 36 06-0

Telex No.: 613222421 awt, 114787 awt a, Ttx: 232-3222421=awt

Fax No.: 222/63 36 06-16, 63 75 38

Name/position of contact(s) F. Hoerhager, head of countertrade department

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered
to developing countries: International trading activities
Export consultancy services
Foreign trade financing
Countertrade operations
Clearing and switch transactions
Trustee services

Previous experience of
advising developing
countries at an official
level: AWT will advise on the structuring of
countertrade transactions within the following
product range: - metals and ores
- wood and paper pulp
- chemicals
- foodstuffs
- commodities

Payment terms: to be negotiated

Name of respondent: F. Tschudi

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Bank of Credit and Commerce International SA
Address: 100 Leadenhall Street
London EC3A 3AD

Telephone No.: 283.8566 ext 4626
Telex No.: 892.251
Fax No.: 626.9596
Name/position of contact(s) Helmut J Ferenz
Senior Consultant

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: (Counter)trade promotion + settlement

Previous experience of advising developing countries at an official level: Repeated countertrade conferences for senior government, bank and economic officials from around 75 countries

Payment terms: negotiable

Name of respondent: Helmut J Ferenz

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: BANQUE FRANCAISE DU COMMERCE EXTERIEUR

Address: 21 BLD HAUSSMANN - 75009 PARIS

Telephone No.: 47.42.12.18

Telex No.: 290 136 ECOM

Fax No.: 47 42 44 89

Name/position of contact(s) Henry CLAUDOT - Directeur Adjoint
Marcel-Pierre MONTHORIN - Sous-Directeur

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered

to developing countries: BFCE's approach to Countertrade related to developing countries is based on finding opportunities to develop exports of developing countries. BFCE maintains a strict role of banking services, therefore advise, propose financial mechanism allowing a safe execution of reciprocal trade operations, mainly on South to South basis. As far as marketing research is concerned, BFCE may provide marketing information related to products, trading companies etc..

Previous experience of

advising developing Brazil (clearing operations) Mexico, Argentina - financing
countries at an official mechanism related to payments of imports into these
level: countries through pre-exports of products originating of
such countries.
Indonesia - development of trade relation between Indonesia
and Eastern European Countries

Payment terms: Normal advising and banking fees

Name of respondent: _____

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: CENTRO INTERNATIONALE HANDELSBANK AG

Address: Tegetthoffstraße 1, P.O.Box 272

A-1015 Vienna

Austria

Telephone No.: 222/51 52 0-0

Telex No.: 136990 cent a

Fax No.: 222/52 58 61

Name/position of contact(s) Dkfm. Christian Sperk

Member of the Executive Board

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Advisory activity for elaborating

countertrade policy, "without recourse"

performance of countertrade contracts of

Western suppliers in countries like Indonesia,

Malaysia, Brazil, India, Thailand, China,

Greece, Algeria, Tunisia, GDR, Comecon and

other countries.

Previous experience of advising developing countries at an official level: Centrobank has been advising the authorities in

Indonesia on the present countertrade

documentation (Letter of Undertaking,

Annex A, Assignment Agreement)

Payment terms: according to conditions of contract.

Name of respondent: _____

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: The Chase Manhattan Bank, N.A.

Address: Woolgate House,
Coleman Street,
London EC2P 2HD

Telephone No.: 01 726 5000

Telex No.: 8954681 CMB G

Fax No.: 01 606 8752

Name/position of contact(s) Paul Emmett
VP

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: - Professional advice service on the various methods of structuring countertrade transactions, based on many years' experience in the trade finance business
- Extensive experience of running Escrow accounts
- Wide variety of country of risk cover available, eg. letter of credit confirmations
- Using Chase network to source customers who can take on counterpurchase obligations.

Previous experience of advising developing countries at an official level: _____

Payment terms: As appropriate for each transaction.

Name of respondent: Paul Emmett

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Crown Agents for Oversea Governments and Administrations

Address: 52 Grosvenor Gardens
LONDON SW1W OAX

Telephone No.: 01 834 3644

Telex No.: 915623

Fax No.: 01 222 0605

Name/position of contact(s) Qamar S Siddiqi, Director, Crown Agents Financial Advisory Service (CAFAS)

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered

to developing countries: Through its Financial Advisory Service, Crown Agents provide assistance to governments in assessing and utilising opportunities for countertrade, as part of the country's efforts to mobilise domestic resources and to develop its exports of non-traditional products and commodities. The services offered include countertrade feasibility studies, developing countertrade policies and assistance in marketing the clients' goods and commodities.

Previous experience of advising developing countries at an official level:

CAFAS is able to draw on the entire range of professional skills in the Crown Agents organisation. These skills have enabled the Crown Agents to become one of the world's largest and most experienced international public service buying agencies. Crown Agents as a whole provide professional, commercial and financial services to more*

Payment terms:

Monthly against invoice

Name of respondent:

Q S Siddiqi

*than one hundred Governments and three hundred other public authorities and international bodies throughout the world.

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Deerfield Communications Corporation

Address: 210 East 39th Street

New York, New York 10016

Telephone No.: 212 635 0066

Telex No.: 710 581 2376

Fax No.: -

Name/position of contact(s) Fred B. Tarter, President

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Purchase of goods as part of buy backs and counter purchase agreements. Mostly consumer goods.

Previous experience of advising developing countries at an official level: Set up first data processing plant as part of evidence account in Jamaica

Payment terms: Letter of Credit

Name of respondent: Fred Tarter

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: F.J. Elsner & Co.

Address: Sterngasse 6a

A-1010 Vienna

Telephone No.: 63 07 23

Telex No.: 111949 elsnw a

Fax No.: 63 67 13

Name/position of contact(s) Dr. Wilhelm Ambichl, General Manager

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Dissolving of C.T. obligations for third parties in own name and for own account in Comecon countries and specific Third World countries, such as Indonesia, China, Thailand, Philippines, Bangladesh, Tunisia, Algeria, Egypt, Zimbabwe, Argentina, Ecuador, Malaysia.

Previous experience of advising developing countries at an official level: We have been advising top officials and governmental authorities in Malaysia, Thailand, China and the Philippines. In Malaysia we are running a joint-venture company (Kuala Lumpur) for C.T. only, which covers one third of all C.T. contracts.

Payment terms: L/C, Buy-back, parallel deals and barter.

Name of respondent: Dr. Wilhelm Ambichl

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: EUROPEAN INTERAMERICAN FINANCE CORP.

Address: 400 MADISON AVENUE - SUITE 401
NEW YORK, N.Y. 10017

Telephone No.: (212) 751-2200

Telex No.: 225180 EURIN UR

Fax No.: (212) 319-7833

Name/position of contact(s) MARTIN W. SCHUBERT, CHAIRMAN
PETER DE WOLFF, SENIOR VICE PRESIDENT

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered THE EURINAM GROUP, IN JOINT VENTURE WITH SINGER & FRIEDLANDER LTD., U.K. PROVIDES EXPORT CREDIT to developing countries: FINANCING WORLD WIDE, SPECIALIZING IN UNIQUE METHODS OF DISCOUNTING PROMISSORY NOTES FOR THIRD WORLD MAJOR CORPORATE AND SOVEREIGN RISK DEBTORS. MEANS OF FINANCING MAY INCLUDE A FORFEIT DISCOUNT FOR CASH OR VARIOUS NON-TRADITIONAL METHODS INCLUDING PAYMENT THROUGH OTHER ASSETS. THE EURINAM GROUP ALSO OFFERS SPECIALIZED FINANCING AND CONSULTING SERVICES IN CONJUNCTION WITH PROJECTS AND FOR GOVERNMENT TO GOVERNMENT BARTERS.

Previous experience of advising developing countries at an official level: THE EURINAM AND SINGER & FRIEDLANDER LTD. DIRECTORS HAVE BEEN ACTIVE ADVISORS TO VARIOUS DEVELOPING COUNTRIES FOR NUMEROUS YEARS ON AN UNDISCLOSED BASIS, INCLUDING SPECIAL WORK IN CONJUNCTION WITH THE FORMULATION OF DEBT EQUITY CONVERSION PROGRAMS AND ASSET SWAPS, A FIELD WHICH IT PIONEERED.

Payment terms: FINANCING UP TO 10 YEARS

Name of respondent: MARTIN W. SCHUBERT

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Genossenschaftliche Zentralbank AG

Address: Herrengasse 1
A-1010 Vienna

Telephone No.: 63 27 78 or 6662-0

Telex No.: 136556 zbah and 136989 zena

Fax No.: _____

Name/position of contact(s) Dir. Dr. Herbert Stepic
Head of International Department

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: GZB offers a full fledged Merchant Banking service including C.T., where the trading function is being taken over by F.J.Elsner & Co. and their subsidiaries, and the financial engineering by the merchant banking department of GZB itself.

Previous experience of advising developing countries at an official level: No direct consulting of governments or countries, only privat enterprises and multinationals.

Payment terms: Financial package consisting of straight payment, L/C together with all forms of C.T. payment forms.

Name of respondent: Dr. Herbert Stepic, Member of
the Board

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Lloyds Bank Plc
Address: Barter and Countertrade Department
71 Lombard Street
LONDON EC3P 3BS
Telephone No.: (01) - 626 1500 x 2278
Telex No.: 888301 LOYDLN G
Fax No.: 01 - 626 1500 x 3164
Name/position of contact(s): 1. A.J. Linger, Chief Manager
2. R. England, Senior Manager
3. D.R. Stott, Manager Countertrade Services

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: 1. Advice on structuring Countertrade operations
2. Introduction to Traders/Buyers/Suppliers
3. Documenting transactions
4. Administration and control of transactions
5. Normal banking facilities

Previous experience of advising developing countries at an official level: Lloyds Bank has many years experience in
advising developing Countries in all types of
banking services. The B & CT Department has
given advice to numerous Countries in developing
their Countertrade activities to maximise
export/import requirements.

Payment terms: N/A

Name of respondent: D.R. Stott

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: MARCOTRADE S.A.

Address: 10, Cours de Rive

Geneva 3

Switzerland

Telephone No.: (022) 36 19 20

Telex No.: 421333 A/B ARA

Fax No.: (022) 36 14 39

Name/position of contact(s) S Cabaj - Manager

A Irani - Manager

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: 1) Commodity Imports/Exports

2) Finance

3) Transport

4) Investment in Export oriented projects

5) Competitive Import Substitution projects

Previous experience of advising developing countries at an official level: 1) Pakistan 6) Uganda

2) Iran 7) Sudan

3) Madagascar

4) Tanzania

5) Zambia

Payment terms: To be mutually agreed

Name of respondent: Aspi Irani

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: MARYLAND NATIONAL BANK

Address: 2, NORTH CHARLES STREET

BALTIMORE, MD 21201

Telephone No.: 301-244 6026

Telex No.: 197637

Fax No.: 528-2786

Name/position of contact(s) MARTIN R. BRILL, V.P.

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered

- to developing countries: (1) Advise client on negotiating and pricing strategies for countertrade products
- (2) Identify end-users
- (3) Establish escrow accounts
- (4) Case-by-case finance importers and exporters
- (5) Provide documentary services to support the transaction

Previous experience of advising developing countries at an official level:

Advised and structured countertrade transactions in China, Malaysia, Brazil, Mexico, Zimbabwe, Belgium, Jamaica

Payment terms: Fee basis determined by difficulty of transaction, amount and time required

Name of respondent: MARTIN R. BRILL

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: MG Services Company

Address: 520, Madison Avenue,
27th Floor,
New York,
NY 10022, U.S.A.

Telephone No.: (212) 715 5200

Telex No.: 423540 mgs ui

Fax No.: (212) 715 5291

Name/position of contact(s) Philip S. Beckerman

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered
to developing countries: a) Advice on the establishment of manageable,
effective Countertrade schemes/policies
b) Setting-up of Trade Finance facilities for the
import of essential goods.

Previous experience of
advising developing
countries at an official
level: *Advice to Indonesian Department of Trade on
Countertrade Regulations.
*Advice to Malaysian Unit Khas Countertrade/Ministry
of Trade and Industry on Countertrade Regulations.
*Advice to Columbian INCOMEX on Countertrade Regulations.
*Frame Countertrade Agreements with the Governments of
India, Pakistan, Bangladesh, Greece.

Payment terms: To be negotiated.

Name of respondent: Mr. Yves M. Kupfermunz, Managing Director of MG Services
in London.

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: MIDLAND BANK PLC, INTERNATIONAL DIVISION

Address: 87 QUEEN VICTORIA STREET,
LONDON EC4V 4AP

Telephone No.: 01-260 4544/5008

Telex No.: 887305/888401

Fax No.: 01-260 5723

Name/position of contact(s) G.M. Nockles, Countertrade Director
C.H. Heritage, Manager, Countertrade

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Advice on countertrade in other countries
Consultancy service on the merits of countertrade
Detailed tailor-making of countertrade policy to fit in with country requirements

Previous experience of advising developing countries at an official level: Practical assistance in all aspects of implementation of countertrade policy
Assistance in export promotion through trading subsidiary
ADVISORY WORK ON COUNTERTRADE
CYPRUS - Min. of Commerce and Industry 1986
EGYPT - Export Development Bank 1985
ECUADOR - Ministry of Foreign Trade 1986
MALTA - Malta Development Corporation 1985
THAILAND - Ministry of Commerce 1986

Payment terms: In addition the Midland Bank Group has undertaken a variety of advisory work in many countries in related areas
Subject to individual negotiation

Name of respondent: C. Heritage

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: MIRTECH S.A.

Address: Case postale 93
CH-1211 Geneva 19 (Petit Saconnex)
Switzerland

Telephone No.: Geneva (022) 76.11.37

Telex No.: --

Fax No.: --

Name/position of contact(s) Donald Whittaker - Managing Director
Thaddeus Kopinski - U.S. rep. based in Washington, DC

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: We have prepared papers, presented talks and provided consultancy services to various developing countries in the framework of UNCTAD- and ASTROC-sponsored seminars, workshops and conferences. We have prepared negotiating guides for the Economic Commission for Europe's Expert Group on Contract Practices, for use in countertrade negotiations. These guides have been widely distributed through the U.N. system.

Previous experience of advising developing countries at an official level: We have advised STOs in several developing countries on potential partners (end-users, trading houses, banks) for individual countertrade transactions.

Payment terms: Negotiable.

Name of respondent: Donald Whittaker

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: NISSHO IWAI CORPORATION

Address: 4-5, AKASAKA 2-CHOME, MINATO-KU, TOKYO 107, JAPAN

Telephone No.: (03) 588-3654, 588-3631

Telex No.: 22233 NIC TK

Fax No.: (03) 588-4334

Name/position of contact(s) MR.I.IZUMI, GENERAL MANAGER OF COUNTERTRADE OFFICE

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Japanese based, trading house (sogo shosha) with 137 international offices.

Previous experience of advising developing countries at an official level:

Payment terms:

Name of respondent: _____

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: POSTIPANKKI

Address: Unioninkatu 20
SF-00007 Helsinki
FINLAND

Telephone No.: +358-0-164 3782

Telex No.: 123687 PSPUS SF

Fax No.: +358-0-164 3634

Name/position of contact(s) Mr. Jouko Toikka
Special Adviser

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Full banking services + countertrade advice & assistance in Finland - related trade operations

Geographic specialties: Eastern Europe

Previous experience of advising developing countries at an official level:

Payment terms: _____

Name of respondent: Jouko Toikka

Subsidiary in London: POSTIPANKKI (U.K.) LIMITED
10/12 Little Trinity Lane
London EC4V 2AA
Tel. +44-1-489 0303
Tlx. 894818 FINBK-G
Cables FINNIT, LONDON EC4
Telefax +44-1-489 1142

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Produce Studies Ltd.

Address: Northcroft House,
West Street,
Newbury,
Berkshire RG13 1HD England

Telephone No.: (0635) 46112

Telex No.: 849228 PROMAR G

Fax No.: (0635) 43945

Name/position of contact(s) Stephen Jones - Director, Overseas Division
Ashley Jagoe - Research Executive

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered
to developing countries: Policy advice to governments and private clients.
Finding buyers for countertraded exports.
Identifying incremental export opportunities.
In-country studies to identify potential countertrade exports, and assess feasibility of countertrade.
Publications and seminars.

Previous experience of
advising developing
countries at an official
level: Co-ordinating consultants for Commonwealth Symposium on Countertrade, in Jamaica, 1986.
Consultants retained by the Commonwealth Secretariat to research and prepare this countertrade manual.

Payment terms: Negotiable.

Name of respondent: _____

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Prudential-Bache Trade Corporation

Address: 100 Gold Street, 5th Floor,
New York, New York, 10292.

Telephone No.: (212) 406-6615

Telex No.: 6720090 PBTC VW

Fax No.: (212) 619-1409

Name/position of contact(s) Neil H. Caplan
Sr. Vice President.

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered
to developing countries: Merchant Banking, Trade Finance, Project Finance,
Commodity-linked Finance, Countertrade,
Pre-Export Financing.

Previous experience of
advising developing
countries at an official
level: - Special Trading Agreement with the Government
of Pakistan.
- Advisors to African Development Bank
- Advisors to Asian Development Bank

Payment terms: _____

Name of respondent: Steven Peterson, V.P.

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Scandinavian Trading International Ltd.,

Address: 3 Queen Street,
Mayfair,
London, W1X 7PH
England

Telephone No.: 01-4092840

Telex No.: 263576 Tradea 6

Fax No.: 44-1 6295178

Name/position of contact(s) Rolf Carlsson
Peter Marks

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered
to developing countries: Countertrade assistance
- Structuring
- Import-Export
Commodities such as oil, fertilisers
food products and agriculture products

Previous experience of
advising developing
countries at an official
level: Government level as well as on private
levels.

Payment terms: Countertrade

Name of respondent: Rolf Carlsson

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Skandinaviska Enskilda Banken; SEB International

Address: 106 40 STOCKHOLM

Telephone No.: 08-763 50 00

Telex No.: 11 000 essebi s

Fax No.: 08-763 83 89

Name/position of contact(s) Department Manager

William Nisser

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered

to developing countries: SEB provides financial services, commercial and legal advice, arranges Interbank agreements and keeps special accounts under CT contracts. SEB has together with Danish, Norwegian and Finnish banks formed the SBP Trading Group, thus comprehensively covering a market of 25 million people.

Previous experience of advising developing countries at an official level:

As the leading bank in Scandinavia SEB offers a wide range of financial services and advice to our clients, to our correspondents and to various official financial institutions in connection with Scandinavian related activities in Africa and Latinamerica/the Carribean

Payment terms: CAD, L/Cs, Blocked amounts, Deferred payment

Name of respondent: William Nisser

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: Straits Petroleum and Partners

Address: P.O. Box 546 Head Office: Park House
Diablo 165/177, The Broadway
California 94528 London SW19 1AQ
U.S.A.

Telephone No.: (415) 831 0110 01 543 2133

Telex No.: 353438 917910 STRAIT G

Fax No.: (415) 831 0110 01 543 7906

Name/position of contact(s) Tony Amor - Vice President

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered to developing countries: Oil and countertrade consultants - wide range of specialised services to international exporters considering / utilising CT to improve their competitive position or to overcome payment or financing problems. Services include planning CT strategy, developing details and structure of tenders, helping with or undertaking negotiations, documenting and implementing the transaction
Principal(s) have all worked in third-world countries. Mr. Amor has also worked (and continues to work) for the U.S. Agency for International Development in the Caribbean. Other principals have been active at Government levels in a number of African countries.

Previous experience of advising developing countries at an official level: Mr. Amor has also worked (and continues to work) for the U.S. Agency for International Development in the Caribbean. Other principals have been active at Government levels in a number of African countries.

Payment terms: Commission basis, based on successful transaction.

Name of respondent: A.R. Amor.

Questionnaire

Countertrade Manual

Sources of Advice, Assistance and Services

Name of Company: UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

Address: Palais des Nations
1211 GENEVA 10
SWITZERLAND

Telephone No.: (022) 34 60 11

Telex No.: 28 96 96 (CALL BACK: UNO CH)

Fax No.: -

Name/position of contact(s) Mr. Raúl Uranga, Chief, Enterprises/Sectoral
Co-operation Section, Division for ECDC
~~Mr. F. Joshua, Economic Affairs Officer, Enterprises/~~
Sectoral Co-operation Section, Division for ECDC

A separate sheet may be attached if you wish to list subsidiary or regional offices.

Range of services offered
to developing countries: Analytical studies on the policies, practices, legal and
other institutional arrangements, related economic and
trading issues; identification and evaluation of CT opportunities;
technical advice and training for both public and private sector
business executives.

Previous experience of
advising developing
countries at an official
level: Interregional and regional training workshops convened in
Belgrade, Kuala Lumpur, Bangkok, Las Palmas (Gran Canary Island)
(National training workshops due to be held shortly in Lima
and Mexico City. Other specialised events forecasted).

Payment terms: Not relevant.

Name of respondent: Frank T. Joshua

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