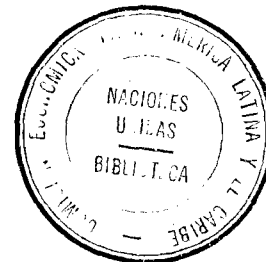


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CARIBBEAN DEVELOPMENT AND CO-OPERATION COMMITTEE

Countertrade Consultative Meeting  
Georgetown, Guyana  
14-15 March 1989



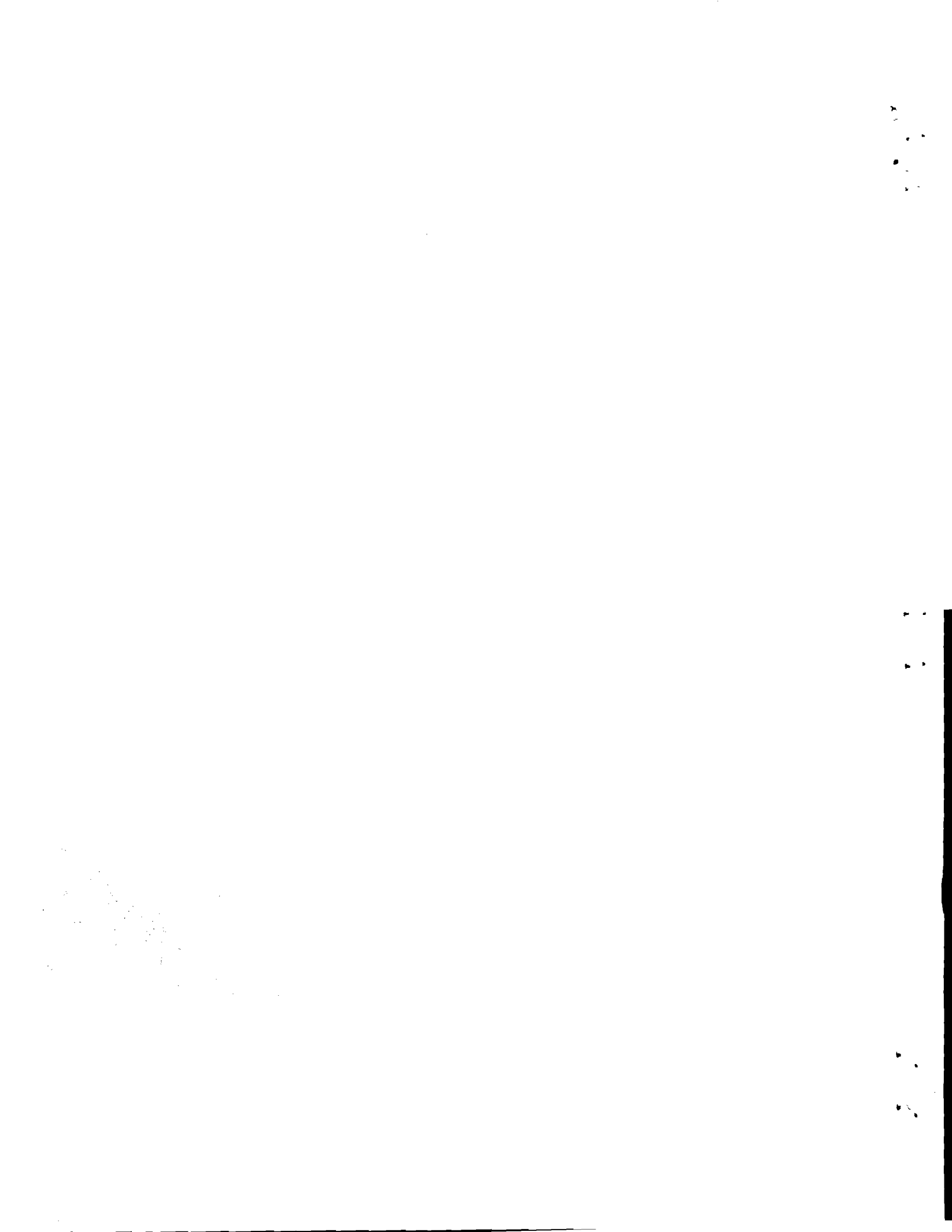
REPORT OF THE COUNTERTRADE CONSULTATIVE MEETING

The meeting was organized jointly by the Economic Commission for Latin America and the Caribbean (ECLAC), Subregional Headquarters for the Caribbean and the CARICOM Secretariat



UNITED NATIONS

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Subregional Headquarters for the Caribbean



## REPORT OF THE COUNTERTRADE CONSULTATIVE MEETING

### INTRODUCTION

1. This report summarises the presentations and discussions of a Countertrade Consultative Meeting held at the Headquarters of the Caribbean Community Secretariat (CARICOM), Central Bank Building, Georgetown, Guyana, from the 14 to 15 March 1989.
2. The technical meeting was convened jointly by the United Nations Economic Commission for Latin America and the Caribbean (UN/ECLAC) and the Caribbean Community Secretariat (CARICOM).

#### Opening session

3. The featured address was delivered by the Hon. Mr. Winston Murray, Minister of Trade and Tourism, Government of Guyana. Other addresses were given by Ms. Cecile Davis, Resident Representative, United Nations Development Programme, Guyana and Ms. Desiree Field-Ridley, Economic Adviser, CARICOM Secretariat. Ms. Field-Ridley spoke on behalf of the Secretary-General of CARICOM, Mr. Roderick Rainford. The text of the address of the Minister of Trade and Tourism is contained in Annex 1 of this report. Mr. Stan Odle, Trade Programme Co-ordinator, CARICOM Secretariat presided over the meeting.

#### Purpose of the meeting

4. The purpose of the meeting was to consider various forms of countertrade and their applicability and viability to the external trade of the Caribbean. In this regard, the meeting was called to examine the various arguments for and against countertrade and the possibility of establishing a regional facility for it in the region. The meeting was also called to consider co-operation amongst state trading organizations in the English-speaking Caribbean countries in general and countertrade in particular.

#### Participants

5. Representatives from the following Governments were invited to the meeting: Barbados, Cuba, Guyana, Jamaica, Suriname and Trinidad and Tobago. In addition, there were representatives from the private sector and from regional and international organizations. The list of participants is contained in Annex II.

#### Structure of the meeting

6. The Agenda of the meeting is outlined at Annex III and the list of documents at Annex IV.

## PROCEEDINGS

Introductory remarks

7. The Chairman, Mr. Stan Odle, welcomed the Minister of Trade and Tourism of the Government of Guyana and participants to the meeting. He briefly explained the purpose of the meeting and asked participants to introduce themselves. At the end of this, Ms. Desire Field-Ridley, Economic Adviser from CARICOM, and Ms. Cecile Davis, Resident Representative of UNDP, made opening statements. The featured address was given by the Minister of Trade and Tourism, The Hon. Winston Murray.

8. The economic adviser spoke on behalf of the Secretary-General of CARICOM. She extended a warm welcome to the Minister of Trade and Tourism, Mr. W. Murray, to participants and to ECLAC, without whose interest in the subject, she noted, there would not have been the collaborative arrangement between the two secretariats to hold the consultative meeting. She referred to efforts by CARICOM at regional meetings to assess the pros and cons and scope of countertrade. She also took note of the experience of countries in the region in the trade. The CARICOM Secretariat, she added, was pleased to host the meeting for a variety of reasons amongst which was the fact that a number of CARICOM States were engaged in countertrade in order to facilitate both import and export transactions.

9. Countertrade, she observed, was practiced on a trial and error basis with varying degrees of success. Since countertrade could result in increased interregional trade, there was need for further study and refinement, even to the extent of giving greater flexibility to the trade to overcome some of its limitations. Countertrade could result not only in increases in trade but also in reductions in trading imbalances, thereby providing a possible solution to a viable CARICOM Multilateral Clearing House Facility. The economic adviser from CARICOM referred to the production side of countertrade and the economic benefits that it conferred. She made mention of a number of organizational arrangements that needed to be put in place for countertrade to be operationalized.

10. The speaker then said that it was CARICOM's hope that the meeting would be more than just a recounting of experiences. The expectation, she added, was that it would be a meeting that could point the way for Member States on what directions to take on countertrade. She further hoped that the meeting would not leave issues unresolved. She observed that participants were starting out on the discussions knowing that direct sales were always preferable to countertrade. Noting the costs of countertrade, which she said had a tendency to escalate, she added that what was needed was a mechanism to reduce costs and maximize benefits.

11. The representative of CARICOM noted the importance of the subsidiary subject on co-operation among state trading organizations and indicated that it could be the subject of discussions on its own merit. She concluded on a hopeful note that the meeting would be a success.

12. The next speaker was the Resident Representative, United Nations Development Programme, Guyana who spoke on behalf of ECLAC. In her statement, she thanked the Government of Guyana for its kind permission in allowing the joint meeting to be held. She thanked CARICOM, particularly the Secretary-General, Mr. Roderick Rainford, and Mr. Stanley Odle for all that they had done in facilitating the holding of the meeting. She welcomed all participants and expressed confidence that their knowledge and experience would be useful to the business of the meeting.

13. The Resident Representative noted the economic circumstances in the region in which the meeting was being held - declining growth rates, increases in the levels and rates of unemployment, debt, inflation and a foreign exchange constraint. Alternative trade tools had to be developed. Countertrade was one such tool. She referred to the ECLAC/UNCTC Group of Experts Meeting on Trade Finance, Transnational Banks and External Finance held 17-19 May 1988 in Barbados which referred to the usefulness of countertrade but noted the high cost of transactions.

14. The speaker noted the arrangements for holding the consultative meeting summarizing the main elements of the two documents: "Countertrade policies and practices with special reference to selected Caribbean countries" and "Co-operation among state trading organizations". The former was a factual presentation of countertrade as contained in the economic literature on the subject and a treatment of government policy and practices, together with the activities of international trading firms and financial intermediaries. The document ended with an examination of the issue of a regional facility for countertrade. The second document focused on the role of state trading corporations in fostering economic co-operation in the region. The author considered questions of joint procurement and purchasing, marketing, trade information, export development, shipping and air transportation. She then referred to recommendation No. 2, in that document in which regional governments were urged to investigate the possibility of setting up joint marketing services in overseas markets for products such as bauxite, alumina, bananas, sugar, spices as well as non-traditional agricultural, agro-based and manufactured products.

15. Finally, she wished for a good meeting and expressed the hope that the recommendations that would emerge would be useful to Caribbean governments.

16. The featured address was delivered by the Hon. Winston Murray, Minister of Trade and Tourism, Government of Guyana. The Minister congratulated CARICOM and ECLAC for sponsoring the consultative meeting. He suggested that there might be other areas of economic and functional activities which could benefit from the consultative process to the good of countries in the region. He hoped that the regional and international organizations present would be willing to assist in financing consultations under regional programmes by enlarging their resource allocations to the region. Turning to the countertrade meeting, he noted that it was timely both for political and technical reasons. On countertrade itself, the Minister further noted that it was one mechanism through which goods might be sold, although normal commercial arrangements were more efficient for conducting external trade transactions.

17. Minister Murray expressed satisfaction with the documentation for the meeting. He indicated that the consultation would have been worthwhile even if, at the end, the only common position that was to emerge was that countertrade could have a useful role to play as the Caribbean region strove to promote exports to third countries and expand intraregional trade. The full text of the Minister's statement is contained in Annex I.

Countertrade policies and practices with special reference to selected Caribbean countries

18. After the Minister's statement, the Chairman asked Mr. St. George Joiner of UN/ECLAC secretariat to present the main document of the meeting - "Countertrade policies and practices with special reference to selected Caribbean countries". (LC/CAR/G. 267).

19. He started by referring to missions that he had undertaken and the research he had done for the purpose of writing the document. He defined countertrade as "an international commercial operation in the framework of which the seller has to accept in partial or in total settlement of his delivery in the supply of products coming from the purchasing country."<sup>1</sup> He then gave a brief economic history of the evolution of countertrade in international economic relations starting from ancient times through the Great Depression, to the oil crisis of 1973. The year 1973 saw many nations, both developed and developing, resorting to the practice of countertrade. The industrialized countries sought deals that ensured supplies of oil for them whilst developing countries concluded ones at prices that were slightly below the then high world market prices.

20. Following that brief historical sketch was a presentation of the data on countertrade as contained in document LC/CAR/G.267. Information was given on a number of deals covering the period

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<sup>1</sup> OECD East-West Trade: Recent development in countertrade (Paris, 1981) p.9.

1980-1987 for North Africa, the Middle East, Sub-Saharan Africa, the Indian sub-continent, East Asia, Latin America and the Caribbean. Data on products countertraded were also given, with special mention made of the data on crude oil and cereals. Further graphic presentations were given on reported deals involving developing countries and on exports from developing countries in 1,122 deals struck between 1980-1987.

21. The reasons for countertrade were then examined. Mr. Joiner looked at three groups of countries:

- a) Developed market-economy countries;
- b) The socialist countries of Eastern Europe and China; and
- c) The developing countries.

22. For the first group he noted the following reasons for countertrade: the need to pursue industrial policy objectives; to have access to the supply of critical raw materials; to undertake nominal pricing arrangements, to reduce debt incurred by third world nations; and to expand business opportunities. Examples illustrating these were given.

23. The reasons for countertrade by the second group of countries were outlined. These related to the need to maintain foreign trade policy as part of general macro-economic management, to the requirement to upgrade technology, to penetrate non-traditional markets and international marketing networks and to establish a means for earning and conserving foreign exchange.

24. For developing countries, Mr. Joiner stated that they undertook countertrade in order to: overcome critical foreign exchange constraints, to improve their marketing intelligence and develop new markets for their non-traditional products and dispose of excess supplies of commodities via incremental markets, to obtain modern technology; and to engage, albeit discreetly, in exchange rate management techniques through the use of selective devaluations on countertrade deals.

25. In presenting the case against countertrade, he indicated that the trade was complicated and risky. Deals have had to be tailor-made, regulations governing them were often cumbersome and the approval processes were unpredictable. He identified costs as the second prohibitive factor. Those costs related to subsidies or discounts to be passed on to the ultimate buyer and to commissions of between 1-5 percent of the value of deals. Administrative and legal costs were also identified. Added to them were hidden costs relating to uncertainties about the delivery of goods, the quality of products countertraded and economy-wide distortions brought about by discounts on deals. All these, he said, made countertrade expensive.

26. In addition to the above, reference was made to the fact that countertrade tended to limit the incentives for autonomous marketing by state trading organizations which relied on deals rather than on initiative to stay in business. Finally, there were considerations that the International Monetary Fund and the General Agreement on Tariff and Trade (GATT) were not supportive of the trade. The IMF believed that the objective of countertrade could be achieved efficiently through appropriate fiscal, monetary and exchange rate policies. Whilst GATT rules did not mention countertrade, interpretations of them, the speaker noted, formed the basis of arguments against countertrade. Articles XI, XVIII and XXIII were usually cited.

27. The presentation then focused on forms of countertrade. Definitions and examples of the following were given: barter, counterpurchase, compensation (buy-back), offsets, joint ventures, evidence accounts and switch-trading. Diagrams were used to illustrate each form. After that, the policies and practices of selected Caribbean countries were evaluated.

28. Jamaica was the first country to be reviewed. That country had a countertrade committee to which all deals were submitted. No specific legislation governed the trade but a number of criteria had to be satisfied. These ranged from a requirement that deals generated new exports to the fact that they must also bring in new investment. Products countertraded had been bauxite, alumina, tobacco, gypsum, soya beans and off-season tourism. The United States, the Union of Soviet Socialist Republics, Yugoslavia and China have been countries with which countertrade deals had been concluded.

29. The next country to be reviewed was Guyana. It was noted that a countertrade committee existed in that country. The guidelines by which the trade had been conducted were in the process of being reviewed. Indeed, Government policy on the trade was undergoing significant changes. One of them was that Government was now emphasising investment and direct market sales in preference to countertrade. Information was given on the volume and value of countertrade in Guyana. Government had used barter, buy-backs, counterpurchase and government-to-government arrangements to effect deals. Principal countries with which Guyana did business in countertrade were given as Cuba, the USSR, the German Democratic Republic, Venezuela, and Trinidad and Tobago.

30. Mr. Joiner looked at the experience of Suriname. That country did not have a countertrade committee. Its main reason for going into countertrade was the sudden suspension of Dutch aid in 1982 and the foreign exchange crisis that ensued. The practice of countertrade was based on the Foreign Exchange Law of 1947. There were three basic principles on which the trade was conducted - non-traditional exports would be favoured, goods imported must be



"basic" goods, and where traditional exports were used, they must have an incremental value to direct market sales. Information was given on two major deals - one for rice and the other for wood. The two countries involved in those deals were Italy and the Federal Republic of Germany, respectively.

31. The review on Barbados was brief. Countertrade, it was noted, was not an important trade policy tool in that country. Barbados' economy fared much better than most others in the region and government had in place trade finance institutions that had worked successfully. Nonetheless, there were some private sector deals such as one involving Stokes and Bynoe Ltd. and the Guyana Pharmaceutical Corporation.

32. The last country that was considered was Trinidad and Tobago. A brief history of the evolution of countertrade was given. A countertrade committee did not exist but a number of general policy guidelines that reflected governments' concerns were examined. They ranged from the need for flexibility in the application of regulations once developed to the establishment of an inter-ministerial committee to prepare a comprehensive national policy on the trade. Examples of deals with Venezuela, Guyana and the United States were given.

33. The final presentation was on the possibility of the setting up of a regional facility for countertrade in the Caribbean. The speaker first looked at proposals for a similar facility to be established in Singapore and in Miami, Florida, USA. A feasibility study for an international currency and barter exchange had been completed by the Singapore Trade Development Board, whilst the International Countertrade and Currency Exchange facility in Miami awaited plans for its capitalization from the City of Miami.

34. A number of arguments for and against setting up a regional facility for the Caribbean were outlined. The case for a facility rested on the fact that it might provide heavily indebted countries in the region with a financing facility to service their trade. It would also create a "pool" that would facilitate debt/commodity swaps. The facility would help promote intraregional trade, permit trade to take place even when foreign exchange was scarce, bring exporters and importers closer together, enhance the region's position as a major trading area and foster closer economic ties between CARICOM and non-CARICOM countries in the wider Caribbean.

35. The foremost argument against a regional facility was that of cost. Member States in the region had been experiencing severe economic difficulties and no single country was presently able to shoulder the financial responsibility of operating a regional facility in the manner that Trinidad and Tobago did under the old

CMCF.<sup>2</sup> Other costs referred to were administrative and legal. Furthermore, the speaker noted, arrangements for a currency exchange at present would not be practical, given the diverse financial structures in the region and the region's growing external debt. Finally, it was argued, the cyclical nature of the countertrade business did not provide sufficient justification for a regional facility to be established at a time when there was some doubt as to the long term viability of the trade.

Co-operation among state trading organizations (STO's)

36. The next presentation was by Mr. Smikle, Consultant. His paper was entitled "Co-operation among state-trading organisations in the Caribbean." In his introductory remarks, he set out the objectives and scope of the research he had undertaken on behalf of ECLAC. He had set out to identify the STO's in the region, determine the extent of co-operation amongst them to facilitate trade and see how such co-operation resulted in a reduction in some elements of trading costs. The research, he added, focused on the English-speaking Caribbean. He also adopted a working definition of STO's i.e. state organisations that were engaged in direct imports and/or exports and in export development and promotion. Five broad categories of STO's were identified:-

- a) State Trading Corporations and Agencies;
- b) Marketing Boards;
- c) Export Trading and Manufacturing Companies;
- d) Export Development and Promotion Corporations; and
- e) National Airlines.

37. The consultant then gave examples of each of these organisations/enterprises. On STO's and agencies, he discussed the workings of the Jamaica Commodity Trading Corporation (JCTC). That body, he noted, was established in 1981. Since 1982, it has been engaged in countertrade. The main commodities traded had been bauxite, motor vehicles, skimmed milk powder, butter oil and wheat. He also discussed the operations of the Guyana National Trading Corporation (GNTC). Founded in 1970, GNTC was responsible for the importation and distribution of a wide range of goods and services including fertilizers, hardware supplies, cement, salt, spare parts, gas cylinders, sporting goods, books and stationery.

38. The consultant referred to the operation of several marketing boards in the region, notably the Barbados Marketing Corporation, the Dominica Export Import Agency (DEXIA), the St. Vincent

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<sup>2</sup> Caribbean Multilateral Clearing Facility.

Marketing Co-operative and the Central Marketing Corporation of Antigua. The marketing boards in the region were established in colonial times and their responsibilities had been mainly in the marketing of traditional exports. In some instances, specialised marketing organizations had been set up to deal with specific commodities. Examples cited were WINBAN (which handled banana exports for the Windward Islands), JAMCO (which handled Jamaica's banana exports) and BATCO (which handled bauxite and alumina sales for Jamaica).

39. Turning to export trading and manufacturing companies, the consultant looked at JETCO, the Jamaica Export Trading Company established in 1972. That Company marketed a wide range of non-traditional products including garments, straw products, furniture, industrial minerals, processed foods, citrus and other fresh agricultural produce. The company used agents and distributors to market its products in the USA, Canada and Western Europe. Reference was also made to the Trinidad and Tobago Export Trading Company which was established as a subsidiary of the Trinidad and Tobago Export Development Corporation to market new products and to secure new markets.

40. The above corporation, together with the Jamaica National Export Corporation (JNEC), and the Barbados Export Promotion Corporation (BEPC), were examined by the consultant under the subject of export development corporations. The Trinidad and Tobago body was set up in 1984. It was given overall responsibility for export development. That responsibility included product analysis, desk market research, trade information processing, market selection, certification and field research. It provided incentives for exports such as market development grants, tax deductible promotional expenses and export allowances. The JNEC was established in 1969 and performed a wide range of activities including market research, training, export promotion and consultancy. It organised trade fairs and trade missions and published a number of journals. The BEPC mandate, the consultant noted, was to encourage actual or potential exporters to expand existing overseas markets and to expand and develop new ones. The bulk of BEPC's activities was concentrated on the provision of services and advice to the private sector.

41. In the last category of STO's, national and regional airlines (BWIA, Air Jamaica, Guyana Airways and LIAT) were examined. Mr. Smikle discussed the provision of both passenger and cargo services and linked the development of a profitable non-traditional export sector with an efficient air transport system.

42. The consultant's presentation then focused on co-operation among the STO's in the region. He observed that there were numerous similarities amongst them which provided a good basis for co-operation. The benefits from co-operation lay not so much in the sale of commodities as in transportation, handling and

processing, marketing and distribution. Data was given on selected exports and imports by STO's. The consultant, noting that co-operation by STO's had been discussed for some time, identified specific areas in shipping, joint purchasing, marketing, trade information and export promotion and air transportation for attention.

43. On shipping, it was noted that the bulk of Caribbean imports and exports was handled by shipping companies in North America and Europe. He discussed the ownership and operation of the West Indies Shipping Corporation (WISCO). In the transportation of general cargo, WISCO accounted for less than 5 percent since it only operated in the short sea segment of Caribbean trade flows which amounted to 50 percent of the total trade flows of the region. Countries could further co-operate in that area to enhance the region's share in the movement of goods. Other areas of co-operation were identified as joint operation of terminals, storage depots, trans-shipment services and joint ventures to operate bulk carriers. Port Authorities could co-operate in the harmonization of rate structures and the rationalization of existing port facilities. Shippers councils could work together to press for the co-ordination of shipping services by conference lines serving the region. They could also set up joint freight investigating units to monitor the cost of shipping services to the region.

44. Looking at joint purchasing, the consultant said that he found no evidence of STO's in the region co-operating in purchasing goods from third countries. That was an area with considerable potential and needed to be explored. Joint large volume purchases, particularly of agricultural imports (fertilizers, chemicals, equipment) would result in lower production costs of agricultural commodities and hence place the exporting STO's in a more competitive position in export markets. Difficulties that would limit co-operation included differences in the size of the territories, the distances between some of them, differences in volume of imports and exports and differences in trading practices.

45. With respect to co-operation in marketing, the speaker noted that the bulk of the region's exports were marketed through overseas agents. He advocated the consideration by governments of the setting up of joint overseas marketing facilities. He thought that the establishment of CATCO, the Caribbean Agricultural Trading Company, as a subsidiary of the Caribbean Food Corporation was a start in the right direction.

46. On trade information and export promotion, the consultant considered a number of topics: trade information, trade fairs and expositions, special publications, training and the CARCIOM common external tariff system. He emphasized the benefits of sharing trade information and data and gave useful information on the trade information system of the Jamaica National Export Corporation and the Trinidad and Tobago Export Development Corporation. The

consultant further underlined the benefits of organizing joint promotional activities at trade fairs and expositions. He felt that Jamaica's JNEC's special publication - Security Manual on Export - could be circulated throughout the region. Training on various aspects of export practice could be shared and co-operation in the setting up of a common external tariff on extraregional imports furthered.

47. The final area for consideration was air transport. Mr. Smikle observed that the existing national and subregional airlines did not offer full cargo services, a factor which very often elicited complaints from regional governments. With diversification of the economies of the region, there was the likelihood of an increase in the demand for air cargo transportation which the regional airlines should work together to satisfy.

48. In reviewing his findings and conclusions, the consultant brought out some of the salient points of the study. In his recommendation, he called for the establishment of a joint venture trading organization with the objective of carrying out joint purchasing of leading import items. He also called for regional governments to investigate the possibility of undertaking joint investments in marketing services in overseas markets. The consultant recommended that regional governments pursue increased participation in the liner and bulk trades and examine co-operation prospects in the joint operation of container terminals, storage depots and trans-shipment services and joint purchasing of tugs for short-sea operations. On air transportation, he recommended that the airlines of the region examine the feasibility of joint ownership and operation of full air cargo services to increase existing capacities and meet projected demand. In his final recommendation, the consultant urged STO's in the Eastern Caribbean to take steps to make use of existing trade information systems in other regional countries. He saw the project, CARTIS, the Caribbean Trade Information System, as a step in the setting up of a formal communication and information system on trade in the region.

### Discussions

49. Separate discussions followed the presentation of the main document by the ECLAC/CDCC secretariat and the subsidiary one by the consultant. There was some attempt to extract elements of the discussion on co-operation among state trading organizations and link them with the general discussion on countertrade.

50. The general discussion on countertrade focused on a number of issues. Firstly, it was felt that, on balance, the main document was a good one. It contained very useful descriptive and analytical material which could be the basis for critical examination by participants. One participant said that he would have liked to see some conclusions or recommendations in the paper.

It was explained to him that the paper was written purposely in that manner to allow the participants who were experts in the field to make recommendations or draw conclusions on the applicability and viability of countertrade in the Caribbean region. Another participant remarked that there was a conclusion. Countertrade was beneficial but risky and governments were advised to proceed cautiously.

51. Another general remark was made concerning the place of countertrade in world trade. It was the view of some participants that countertrade must be seen in the larger context of world trade. A hypothetical question was raised as to whether countertrade was the explanation for the US\$ 100 m. gap in world trade that appeared regularly in global trade statistics. One participant felt that countertrade must also be linked with general economic management given the importance which it had assumed for some countries that used it as a regular trade tool.

52. Some participants noted that Latin American and Caribbean countries should co-operate closely in the field of countertrade. They should exploit the benefits of this form of exchange that existed in this hemisphere and, if possible, they should contemplate working together as a bloc in their trade relations with third countries.

53. Many participants felt that countertrade was a viable and feasible trade finance option. They recognized that opportunities in the region were varied but that they needed to be exploited. Mechanisms for realizing that opportunities would have to be set up where they did not exist and refined where they did. Countertrading links with both East and West, where profitable, should be enhanced. But attempts would have to be made to distinguish commodities which were best suited for countertrade from those that were not.

54. Other general questions raised had to do with the statistical problem of capturing countertrade in the national accounts, the notion of the "additionality" factor in governments' policies, the principle of countertrade being a second best option and the many reasons why countries, particularly developing countries, practice countertrade.

55. With respect to the statistical questions, the view that prevailed was that large recorded deals that would have been approved by a central bank or a ministry of trade would be reflected in the statistics. However, small private sector deals were very difficult to trace. As a result, they represented a considerable "leakage" in the system of reporting trade information. It was noted that many governments had the principle of additionally as an important element in their countertrade policy. Some reference was made to mandated countertrade and whether it resulted in "additional" trade or not. In the absence

of any evidence, it was suggested that maybe "mandated" countertrade, as opposed to countertrade arrangements "freely" entered into, did not result in additionality. But in general, the evidence would suggest that many countries did export more goods using countertrade in addition to normal direct market sales.

56. The principle of countertrade being a second best option was debated for quite some time. The majority of the country experiences would seem to have confirmed the view that it was. However, one participant pointed out that her country considered countertrade to be an important means of maintaining trade and commercial links with its neighbours. The question of a second best option did not arise. Furthermore, she asserted that in her country's experience, countertrade was sometimes the only option available for conducting any form of commercial relations with other countries.

57. On the reasons why regional governments engaged in countertrade, many participants advanced a series of arguments which explained the policies of their respective governments. For Jamaica, foreign exchange considerations and the need to dispose of excess supplies of a particular product (bauxite) were by far the most important. Also important was the need to access new markets, especially those in Eastern Europe. Guyana's reasons had to do with the severe foreign exchange constraint that the country was experiencing, the need to maintain supplies of essential commodities and the requirement to gain access to new markets in order to increase exports. Trinidad and Tobago's economic situation had changed in recent times. Countertrade had been pursued because of the present foreign exchange problems in the country, the need to improve the country's balance of trade and the possibilities that the trade offered for debt management. Suriname's reasons for countertrade had to do with the foreign exchange crisis brought on by the suspension of Dutch aid in 1982 and the need for accessing new markets, particularly those in neighbouring countries.

58. In terms of specific subject areas on countertrade, a number of observations were made. The role of banking and financial arrangements that supported countertrade was emphasized. The significance of the use of performance bonds was discussed. One participant questioned the need for them whilst others underscored their importance in different types of deals, notably barter and counterpurchases. The bonds were necessary so that contracts could be fulfilled and where force majeure prevented the delivery of goods, parties to the deal could be compensated. It was stressed that negotiators in deals must pay particular attention to the legal fine print in the countertrade contract. Additionally, central banks should have some means of exercising "supervisory" functions over deals in order to ensure compliance with government financial regulations.

59. A number of participants saw the need for performance bonds as a form of guarantee. One felt that not all countertrade deals involved banks. Some were government to government arrangements done outside the banking system. Nevertheless, some kind of commercial obligation was essential as was the case in normal direct market sales. It was felt that since bonds did not have to be posted in hard currency, banks could hold other forms of assets as collateral.

60. The other issue that was discussed was the organisational aspects of countertrade. The country experiences were useful in that regard. The main document of the meeting gave information on countries that had set up a countertrade committee, had a set of laws, guidelines or ministerial directives, had a centralized or decentralized approval process and had institutional arrangements in place to support the trade. Those facts were examined at some length. From the discussions, it was clear that Guyana and Jamaica had the most developed organizational system in the CARICOM region. Cuba's, of course, was well developed and had been for some time.

61. What emerged from the discussion also was that clear guidelines were necessary for the trade in order to permit decisions to be made as to what products could or could not be countertraded and the countries with which deals should be made. Clear administrative arrangements were also essential to avoid bureaucratic hindrances which might slow down approval processes or delay the physical movement of goods to be countertraded.

62. The discussion on country experiences provided some information on the products and services countertraded in the region. For instance, it was learnt that Guyana had a contract to supply Suriname with brown sugar in exchange for edible oil. The Dominican Republic had an agreement to supply this same country with white sugar in exchange for lumber. Jamaica countertraded products such as bauxite, gypsum, soya beans and off-season tourism for lada cars, trucks, agricultural equipment, prefabricated houses and construction material. Trinidad and Tobago countertraded steel and oil.

63. One participant pointed out that regional governments needed to be cautious about the goods offered for countertrade. His government, he noted, had taken the view that it would desist from deals that simply supplied raw materials to the industrialized countries of the north. Government reserved the right to determine the products to be countertraded. Some participants argued that the total volume of resources available for countertrade in the region was small as compared to countries in Asia, Africa and Latin America. Therefore, they urged greater regional co-operation between Latin America and the Caribbean in a wider setting in order to profit from the opportunities of countertrade. One participant was worried that this push to widen the countertrade base in the



region might result in difficulties for CARICOM countries that have obligations under that treaty.

64. The review of the country experiences brought out the necessity for an exchange of information by regional governments. Reliable trade information was essential in order to ensure that countertrade deals were drawn up in the best interest of all parties and that the execution of contracts was done on the basis of adequate and reliable information. It was recognized that the big trading houses and transnational banks that engaged in countertrade had access to countertrade information through data bases which could be easily accessed. Countries in the region that practiced countertrade did not have that type of access, so that information exchange amongst them was important. One participant gave a description of the Caribbean Trade Information System (CARTIS) and another of the Central American Trade Information System (PLACIEX). It was the view of some participants that these two systems should, in time, contain information on countertrade that could be accessed by regional governments.

65. Part of the discussion on state trading was linked to the question of information. The Export Development Corporation of Trinidad and Tobago and the Jamaica National Export Corporation had set up trade information systems that had useful data that could be shared in the region. The consultant had referred to this in his presentation and he was supported by a number of participants. One participant felt that given the fact that sometimes secrecy surrounded deals, it might not always be possible to share information on specific deals. He recognized, however, that there was the need to do something to avoid the pitfalls that countries like Guyana and Suriname had experienced.

66. In examining the role of state trading organizations in countertrade, participants considered a number of points raised by the consultant in his presentation. One participant felt that the experience of STO's should be utilized when countertrade arrangements were concluded. Another identified joint purchasing and procurement, marketing and transportation as areas for effective co-operation. Yet another participant was sceptical. He said that the notion that there were advantages to be gained from joint marketing arrangements was not entirely correct. There were cases where individual buyers obtained better prices for their products than they would otherwise have had under joint arrangements. Some joint arrangements, such as CATCO, were not always positive. As a result, the participant added, it was essential to carefully identify the products for joint marketing.

67. The discussion on the role of STO's in countertrade resulted in some differences of views on the importance of STO's in promoting countertrade. In the majority of regional countries, STO's were the dominant countertrade agency, both in the import as well as on the export side. That fact was noted by a number of

participants. Nevertheless, cognizance was taken of the role of private traders and companies that did countertrade.

68. Participants did not spend much time on the operations of trading houses and agencies that engaged in countertrade. They had some discussions on the objections to countertrade that were often raised by the IMF, the World Bank and the GATT. All governments that had countertrade arrangements were mindful of the objections of these international agencies. The point was made though that some of the objections were not strong enough to persuade countries that practised the trade to abandon it. Some of the country experiences revealed instances in which the trade was highly beneficial. Countertrade had been a useful mechanism that permitted normal commercial exchanges to take place.

69. The issue of a regional facility for countertrade took up a considerable amount of time. Participants reviewed the arguments in the main document. Questions were asked as to the nature of such a facility, its structure, capitalization and organization. Comparisons were made with the old CMCF and the difficulties that were experienced in operating it. One participant was not sure as to what conclusions could be drawn from the chapter on the regional facility in the document. Another found the arguments against setting up a regional facility more convincing than the arguments for having it.

70. The most convincing argument against a regional facility, participants felt, was that it would be too costly to operate. The financial, legal and administrative costs could be such that they would make it difficult for regional governments to make provisions for them in national budgets at a time when most countries were going through difficult economic periods. Many felt that the experience of the CMCF would discourage central bankers and Ministry of Finance officials from agreeing to such a facility being set up. Some participants said that what could be better done would be the establishment of conditions that would be supportive of a regional approach to countertrade. There were others who suggested that the regional financial institutions such as BLADEX and the CDB could be useful in that regard. The prevailing view was that the experience of countries that practised countertrade in the region was relatively recent. What was essential therefore was for these countries to share experiences and thereby profit better from the trade.

71. The discussion on countertrade was followed by a shorter discussion on co-operation among state trading organizations. Reference has already been made to parts of that discussion that related directly to countertrade. On other areas, participants raised questions about the definition of STO's as used by the consultant. One participant did not think national airlines could be correctly described as STO's. Another disagreed. He cited BWIA as an example. That airline, he noted, sold a service and was

wholly owned by the Government of Trinidad and Tobago. One participant added the regional air cargo carrier, CARICARGO, and the Arawak Cement Plant to the list of STO'S. After some debate, it was felt that definitional problems were not very important. The areas of co-operation between STO'S were, and so participants focused on them.

72. The areas examined were that of joint procurement and purchasing, shipping, and trade information and export promotion. Reference has already been made to statements on joint procurement and purchasing. On shipping, it was the view of some participants that the region could indeed benefit from the proposals outlined by the consultant. Co-operation in the setting up of freight rates with conference lines was particularly important as it affected the competitiveness of the region's exports. The points raised by the consultant on trade information and export promotion were also discussed by participants, many of whom stressed the need for the sharing of information by STO's.

73. After the general discussions, the meeting considered and adopted a number of findings and conclusions. These are contained in the following section.

## SUMMARY OF FINDINGS AND CONCLUSIONS

74. Participants recognized that some countries have resorted to the mechanism of countertrade to help them achieve their development objectives. They noted that the specific reasons for using the countertrade route varied from country to country and included both short-term and long-term factors, such as:

- (a) Limited foreign exchange availability;
- (b) The need to increase and diversify exports;
- (c) The need to source the raw material inputs required for industry;
- (d) The acquisition of technology and capital goods;
- (e) Securing marketing services as well as market access in targetted countries;
- (f) Liquidating existing obligations.

75. Some participants, while noting the usefulness of countertrade, felt that direct market sales would always be preferred. One participant expressed the view that all forms of trade that benefitted a country were good.

76. The point was made that CARICOM States should fully observe their CARICOM obligations in the conduct of their countertrade activities.

77. In the discussion of their individual country experiences in countertrade, participants attempted to identify possible solutions to the problems which limited the success of their countertrade endeavours. The findings and conclusions emerging from these discussions are dealt with under the following seven subject areas:

a. Organisation

1. Participants examined the administrative structure which would enable the effective management of countertrade arrangements at the national level and noted that a countertrade committee composed of representatives drawn from the public and private sectors, the Central Bank, export promotion agencies and related bodies seemed to be an effective approach.

2. They agreed that clear guidelines should be established to govern the conduct of countertrade (either through formal legislative provisions or the more informal medium of ministerial directives).

3. They examined the options of a centralised or a decentralised arrangement and chose to emphasize the importance of the avoidance of bureaucratic hindrances which might frustrate the larger objective being pursued through the countertrade mechanism.

b. Products and services

1. It was noted that countertrade could involve the exchange of raw materials, semi-manufactured and manufactured goods and services. Participants felt that governments could best determine the products to be countertraded and the form in which they were traded.

2. It was recognized that there was a need to explore the possibilities of countertrading arrangements in the services sector such as data entry and data processing and off-season tourism. Participants were mindful that where these services could be traded for cash there might be no need to countertrade them.

3. It was noted that the instances of countertrade among members of the CARICOM subregion were limited in number. Increased efforts at exploiting the opportunities for countertrade were necessary. It was also noted that the opportunities for expanding countertrade activities in the wider Caribbean and Latin American region should be explored.

c. Financial and banking arrangements

1. The importance of banking and financing arrangements to support countertrade was stressed. It was recognised that the Caribbean Development Bank and BLADDEX, appropriately endowed, could play a useful role in facilitating countertrade activities.

2. The significance of using countertrade as a means of reducing the debt burden of countries in the region was discussed. Arrangements that resulted in the use of countertrade as a means of reducing debts should be examined as a viable option in the management of the overall debt of countries in the region.

d. Information

It was agreed that a reliable trade information system at the regional and national levels was essential to ensure effective and efficient countertrade operations. There was a clear advantage to be gained from governments with experience in countertrade sharing their experiences for the benefit of other states considering countertrade as a trading option. The importance of the trade information systems, CARTIS and PLACIEX, was stressed.

e. Trading houses, agents, joint marketing and purchasing by state trading organizations

The role of trading houses and agents was not fully discussed. The role of state trading organizations in the area of joint purchasing, marketing and shipping (freight rates, insurance) was also not fully examined. However, the meeting felt that STO's in the region needed to co-operate closely in trading matters in general and on countertrade in particular. The economic benefits of this form of co-operation were noted.

f. Attitude of certain international organizations

Participants noted that certain international organizations, notably the IMF, World Bank and the GATT were not favourably disposed to the use of the countertrade mechanism on grounds that it distorted international trade and encouraged the maintenance of inappropriate exchange rates. However, participants recognized that certain countries in the region practised the trade on a regular basis and have derived substantial benefits from it.

g. Regional collaboration in countertrade

1. Participants discussed at some length the possible scope for a regional countertrade facility. Among the questions which arose in the discussion was the form regional collaboration might take (including the extent of participation), how any such regional arrangement might be implemented and, more fundamentally, whether any formal regional structure was necessary.

2. Participants felt that at this stage, there was a more critical need for the regular exchange of information and experience between countertrade entities so as to avoid repeats of some of the negative experiences or outright bad countertrade deals which countries have suffered.

Annex I

Statement by W. Murray, Minister of Trade and Tourism

at the

Opening session of consultative meeting

on

Countertrade Policies and Practices

14 March 1989

Mr. Chairman, Secretary-General of CARICOM, members of the Diplomatic Corps, distinguished representatives of international organizations, participants to consultative meeting, special invitees, it would be appropriate for me to congratulate the officials of the Caribbean Subregional Headquarters of ECLAC and the CARICOM Secretariat officials for sponsoring this consultative meeting. Permit me also the liberty of suggesting that there may be many other areas of economic and functional activities which could benefit from the consultative process to the good of the countries of the region. May I, therefore, express the hope that regional organizations would themselves use the consultative process for identifying other topics which may be the subject of other consultative meetings in the future. I am aware that, in the prevailing economic circumstances, budgetary considerations may be a constraining factor. In this regard I hope I am not mistaken in the belief that the regional and international organizations here present would be willing to assist in financing such consultations under regional programmes by enlarging upon the resource allocations to the region.

Mr. Chairman, the specific consultations which will be taking place over the next two days are as apt as they are timely. They are apt in the context of the general recognition by developing countries of the need to diversify and expand their export bases. They are timely in the sense that many of the developing countries are currently considering these matters. But the timeliness of these discussions extends beyond the currency of technical considerations into the realm of the active dialogue within the region (most pointedly within CARICOM) on the mechanisms that could be used for expanding intraregional trade.

Mr. Chairman, any attempt to determine the strategy for diversification of the regional production and export bases should include an examination of:

1. The possibilities for maximizing linkages among our economies;
2. The rules of origin we adopt among ourselves; and
3. The tariff regime we employ vis-a-vis third countries.

With respect to 2 and 3, I am happy to note that CARICOM has already had a series of technical discussions and that in May of this year a special council meeting will be held for the purpose of decision-making. Without in any way attempting to pre-empt the conclusions of that special meeting, I wish to express the opinion that we should place the highest possible priority on facilitation and encouragement of intra regional trade as well as on the deepening of the industrialization process within our region.

In so far as maximizing economic linkages is concerned facilitating and promotional mechanisms have been formalized within CARICOM and there is no reason why the principles enshrined therein could not be applied in the broader sub-region on an agreed basis.

It is my view Mr. Chairman that the fullest possible cooperation intraregionally with the objective of sustained regional economic development is consistent with the position of the international community in this regard and with the view of the developed countries that we should promote self-help measures.

We recognize, however, that intraregional action is not a sufficient condition for ensuring the diversification and expansion of our export bases. We need always to strive for ever increasing access to the markets of third countries and we will for some time into the future need capital and other goods from third countries. Such policies as we adopt intraregionally therefore must also take in account these objective conditions.

If the measures we take are successful, then the resultant increased production and export availability will need to be marketed and we will have to be very innovative in adopting mechanisms to this end. In fact there is not necessarily a sequential relationship between measures and mechanisms. Some may argue that there is almost a symbiotic relationship. The bottom line, however, is that no one will produce goods which he cannot sell so that the measures and mechanism are generally mutually reinforcing.

Countertrade is one mechanism through which goods may be sold. I have been fortunate to receive a copy of the document which will be before the participants at this meeting on the subject and, in my opinion, it gives a good presentation of the pros and cons of countertrade. It would therefore be superfluous for me to attempt



to repeat what is in the document though I would like to offer some comments on the subject.

I would think that it is generally agreed that the most efficient mechanism for conducting external trade transactions is through normal commercial arrangements such as letters of credit, lines of credit, etc. However, it is not always possible to dispose of products under such "traditional" arrangements. Hence countertrade as an option may need to be considered. Unfortunately, except perhaps in fairly recent times, countertrade has been perceived in a rather pejorative context and deemed to be almost undesirable in itself. This may well have prevented an objective assessment of this mechanism in situations where it could have been helpful. However, when the international liquidity crisis made it difficult for many developed countries to conduct trade on the established basis, they very quickly adopted the mechanism of countertrade and developed it, not merely into an acceptable instrument, but into a very sophisticated, and sometimes complex, one.

It is my sincere conviction that there is no prior reason for ruling out countertrade as a possible mechanism for executing transactions, especially since in some cases it may be the only way to gain access to some markets and in other cases it may be a useful device to ensure exports of products which may not otherwise materialize.

As with all instruments for executing trade transactions, care needs to be exercised in concluding and executing transactions under a regime of countertrade and I am sure these will emerge in the course of your discussions.

The consultations will have been worth the effort even if at the end the only common position that emerged was that countertrade could have a useful role to play as we in the region strive to promote exports to third countries and to expand intraregional trade.

I have noted that the other area you propose to discuss is co-operation among state-trading organizations. As with countertrade, the role of state trading organizations has generally been seen in negative terms but there could be no prior basis for such prejudice. It would be difficult to sustain a line of reasoning which suggests that the existence of state trading organizations is in itself prejudicial to the expansion of intraregional trade in particular or to international trade in general. To say this is not to deny the possibility of action by state trading organizations not fully consistent with the promotion of intraregional trade. I have always believed that more of our efforts should be expended in the direction of ensuring the efficiency of state trading organizations where they exist, of

subjecting them to the competitive process and of ensuring they facilitate the achievement of intraregional objectives.

The item on this subject I observe is entitled "co-operation among state trading organizations". I hope that this rather limited caption would not preclude, or put another way, would include possibilities for discussions on the role of state trading organizations and competition between state trading organizations in our economies. This will to my mind be very useful since, in the final analysis, what Governments are interested in is the most efficient system of conducting trade which will maximize the net earnings for our individual economies specifically and for the regional economy generally.

It is against that background that I hope your discussions will take place and I urge you to discuss in an open and frank manner, albeit cordially, so that by the end of the consultations each participant will leave better informed than when he or she arrived.

And I wish to thank the sponsors for providing me this opportunity to share some thoughts with you.

Thank you very much.

Secretary-General of CARICOM,  
Members of the Diplomatic Corps,

Annex II

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Annex III

## PROGRAMME

ECLAC/CARICOM Countertrade Consultative Meeting  
Tuesday 14 March 1989Day 1

8.30 - 9.30 a.m.	Registration ECLAC/CARICOM
9.30 - 9.35 a.m.	Introduction
9.35 - 11.00 a.m.	O P E N I N G
	Address by the Representative of CARICOM
	Address by the Representative of ECLAC
	Featured Address by the Hon. Winston Murray, Minister of Trade and Tourism, Government of Guyana
11.00 - 11.15 a.m.	C O F F E E    B R E A K
	<u>Session I</u>
11.15 - 12.15 p.m.	Administrative matters ECLAC/CARICOM
12.15 - 2.00 p.m.	L U N C H



Session II

2.00 - 5.00 p.m.

Countertrade policies and  
practices in selected  
Caribbean countries

DAY II

Session III

Wednesday 15 March 1989

9.00 - 11.00 a.m.

Countertrade policies and  
practices in selected  
Caribbean countries.

Co-operation among state  
trading organizations.

Session IV

11.15 - 1.00 p.m.

Countertrade policies and  
practices in selected  
Caribbean countries.

Co-operation among state  
trading organizations.

Session V

4.00 - 5.00 p.m.

Adoption of Report

5.00 - 5.15 p.m.

C L O S I N G

Annex IVTitles of documents

1. Countertrade Policies and Practices with special reference to selected Caribbean Countries LC/CAR/G. 267.
2. Co-operation among State Trading Organizations by Mr. Conrad Smikle, Consultant.