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COUNTERTRADE POLICIES AND PRACTICES
WITH SPECIAL REFERENCE TO SELECTED CARIBBEAN COUNTRIES



UNITED NATIONS

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean

PREAMBLE

The programme budget 1986-1987 of the United Nations Economic Commission for Latin America and the Caribbean provided for the preparation of a study on countertrade. As a result of that decision, the following countries were selected for study: Jamaica, Guyana, Suriname, Barbados and Trinidad and Tobago. A questionnaire was designed for the purpose of collecting and analysing the data that was to be obtained from field missions.

Field work was completed for Jamaica, Guyana, Barbados, Suriname and Trinidad and Tobago.

The present report discusses countertrade in general, examining various aspects of it. This is followed by an analysis of the practices and policies in the countries for which field mission was undertaken and an examination of the viability and applicability of a regional countertrade facility for the Caribbean.

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INTRODUCTION

Countertrade has been defined as "an international commercial operation in the framework of which the seller has to accept in partial or total settlement of his deliveries in the supply of products coming from the purchasing country".¹ The term describes a whole range of trade obligations between two or more parties. These obligations are linked: sales are linked to purchases or purchases to sales. In many instances, governments undertake countertrade themselves. Where they do not do so directly, they pursue policies that encourage the practice or make it a requirement for trade.

The practice of "countertrading" is an ancient one. It goes back to early forms of commerce when there was a direct exchange of goods without recourse to financial settlement or transfer of funds. In relatively modern times, there was increasing recourse to one form of it, barter, because of the disastrous economic consequences of the Great Depression, the international liquidity crisis, the secular decline in commodity prices and export earnings of developing countries, the breakdown in the gold standard and the competitive devaluation of currencies, especially in third world countries.

The oil crisis of 1973 saw a sudden upsurge in the use of countertrade. Many industrialised nations, notably Japan and some member countries of the European Economic Community concluded countertrade deals with several oil-producing states in order to ensure essential supplies of that commodity. Developing countries too concluded deals. The poorest of them, the least developed countries, negotiated deals at prices below what were then considered high world market prices. These deals mitigated somewhat the external debt burden of these countries. But the global recession that followed, high interest rates and protectionism continued to aggravate the acute balance-of-payments difficulties of these developing countries.

Governments in the industrialised market-economy countries pursue forms of countertrade such as off-set, buy-back or counterpurchase. They sometimes impose one of these forms of countertrade on their foreign suppliers as part of their bilateral trade requirements. The technique of "off-set" is the most commonly used form of countertrade for them. Among nations that have used it are Holland, Canada, Spain, France and Switzerland and the U.S.A.

Business firms in the industrialised market-economy countries are usually reluctant to engage in countertrade. They consider it a complicated and risky business. However, their views are

¹ O.E.C.D. East-West Trade: Recent developments in countertrade (Paris, 1981) p.9

changing as countertrade is increasingly being handled by specialist trading firms. Large trading companies such as Cargill, Andre, March Rich, Merban and Kaines are including countertrade in their commodity sales services. In addition to these are the three largest countertrading firms in the world: Phibros,² Centro Internationale Handelsbank and Metallgesellschaft (MGS).

For the socialist countries of Eastern Europe and China, countertrade is very important. In these countries, all foreign trade, including countertrade is managed and directed by their governments. The practice of countertrade is more integrated into the overall structure of the economy. Governments in these countries usually favour forms of countertrade such as buy-backs and counterpurchases. Through buy-backs they are able to transfer western technology to their industries; through counterpurchase, they are able to obtain supplies of commodities from developing countries.

Developing countries have been said to pursue countertrade for a variety of reasons. Countries such as India, Indonesia, Malaysia, Saudi Arabia, Brazil, Venezuela, Cuba, Nigeria and Jamaica have considerable experience in the business. Policies have been devised, institutions created and laws enacted all to facilitate the practice of countertrade.³ Whilst most of the deals struck are counterpurchase deals, a number of new transactions are notably for buy-backs and other compensation agreements. Many developing countries have envisaged countertrade as a means of fostering regional economic co-operation and integration. In Latin America, the Latin American Integration Association (ALADI) has been the main regional proponent of facilitating regional countertrade. In the English-speaking Caribbean, the Caribbean Community (CARICOM) would naturally fulfill that role.⁴ Similar efforts exist elsewhere in Asia and Africa. For better or for worse, these countries have embraced countertrade.

Estimates of the global volume of countertrade are hard to come by. These range from a low of 1% by the International Monetary Fund which discourages countertrade to about 50% in press reports. At present, over 90 countries are involved in countertrade as compared with 15 ten years ago.⁵ The increase in numbers is no doubt substantial but as to exact data on volume and value there is no means of collecting it. Secrecy surrounds deals,

² Trade Finance, Euromoney Publications, September 1987, No.53

³ UNCTAD/ST/ECDC/32; 30 March 1987 pp. 3-4

⁴ This view was expressed by officials during discussions at the CARICOM Secretariat, Georgetown, Guyana in 1987.

⁵ Trade Finance, Euromoney Publications, op. Cit p.37

particularly those negotiated in the private sector. Also, many governments do not record linked bilateral trade as a separate entry in their national accounts. Companies in industrialised market-economy countries do not have to report countertrade transactions as a separate category in their disclosure statements.⁶ The net effect of all this is that trading volumes and trading partners are a secret.

⁶ Welt, Leo G.B., Countertrade; Euromoney Publications; London, 1985.

CHAPTER I

RATIONALE FOR CURRENT COUNTERTRADE POLICIES

In the previous chapter, reference was made to three groups of countries that engaged in countertrade:

- (a) developed market-economy countries
- (b) socialist countries of Eastern Europe and China and
- (c) the developing countries.

This grouping is entirely arbitrary and does not make value judgements on the political systems within which countertrade is practiced.

In developed market-economy countries, governments impose countertrade requirements (usually off-sets) in order to favour certain industries. Such action could be part of governments' industrial policy in support of particular industries or the export sector. It could also be part of government's policy to reduce unemployment as would be the case where certain off-set deals are mandated or imposed.

There is yet another reason for countertrade. Western governments that wish to secure their access to supplies of critical raw materials have instituted so-called "develop-for-import" schemes.⁷ Under these schemes, Western suppliers contract with a developing country government or commercial entity, to invest in or transfer technology to the said country or commercial entity in exchange for guaranteed shipments. These types of deals are usually implemented through a combination of policy decisions and export financing regulations. For instance, in 1982, the French government provided export loans on easy terms to a French firm exporting aluminum refining machinery to India. The terms of the loan required the French firm to receive alumina shipments from India in partial payment for the equipment.⁸ This is a classic buy-back deal.

Firms in developed market-economy countries have gone into countertrade where there is sufficient reason to believe that they can benefit from nominal pricing arrangements. Many firms have used countertrade to disguise or falsify prices or quantities in international trade. Invariably soft commodities are swapped for

⁷ Welt, Leo G.B. Countertrade, Euromoney Publications, London, 1985.

⁸ WALSH, J. Resources Policy Journal December, 1982 p.4

capital goods. For example, oil can be swapped for aircraft or agricultural machinery. Imaginative invoicing and creative accounting distorts the true value of the exchange. Such a practice does occur in conventional trade. In countertrade, it is more difficult to detect. Where the home governments of these firms offer export credit facilities to support the deals, they, in effect, are offering discounts to their trading partners without the risk of violating commodity agreements or GATT protocols.

Companies, notably banks, in some market-economy countries have embraced countertrade as a means of reducing debts incurred to them by some third world nations. A case in point is Peru. One of that country's largest creditors, First Interstate Bank of California with a total exposure of \$100m, raised the possibility of payment in kind. In October of 1987, First Interstate drew up a contract for the payment of \$45 million in working capital debt with Peruvian products during 1987 and 1988. This initiative has caused the Peruvian authorities to develop a set of guidelines and procedures for payment in kind.⁹ The deals, they say, should be based on incrementality, involving non-traditional exports, be labour intensive and consistent with the government's goal of decentralising the economy.

Finally, firms in market-economy countries use countertrade to expand their business. Trading houses, investment and commercial banks have all developed countertrade departments to both arrange and finance countertrade deals on behalf of major corporations. In general, banks will not accept to do deals unless large sums of money were involved (generally over US\$300,000). A transaction involving smaller amounts will be accepted if it is part of a guaranteed repeat sale. The Sogo Shoshas of Japan illustrate the involvement of large conglomerates in countertrade. The Mitsubishi Corporation, the Mitsui Corporation and the Marubeni Corporation, after suffering revenue losses in 1987, started to look for ways to boost business. By leveraging off a massive volume of global trade, these corporations found that they were in an excellent position to act as middlemen in countertrade deals. Although countertrade deals represent only a small percentage of their total volume of business, there have been profitable billion dollar deals for them.¹⁰

The Socialist countries of Eastern Europe and China have without doubt dominated the countertrade scene for many years. These countries operate state trading organisations or agencies that consider countertrade to be ideologically and operationally compatible with their systems of central planning. Foreign trade is conceived as a means of balancing supply and demand within an

⁹ Trade Finance, Euromoney Publications, October 1987, No.54

¹⁰ Trade Finance; Euromoney Publications, April 1988, No. 60

overall macro-economic framework. Countertrade is an essential instrument in achieving that balance.

A primary reason for countertrade policies in the Socialist countries of Eastern Europe and China is the need to up-grade and modernize their manufacturing industries through access to state-of-the-art technology. Countries such as Czechoslovakia, Hungary, Romania and Poland engage in massive buy-back deals in the hope that technological improvements and innovations that go with the licensed product will help improve their industrialisation plans. To a lesser extent, this might be true for the U.S.S.R. The Chinese too see countertrade as a means of encouraging investment in plant and equipment, of providing technical training services and promoting joint ventures. All of these countries hope that through countertrade mandated co-production and buy-backs, they will have access to western know-how and management techniques.

There are yet other attractions. Countertrade is seen by the socialist countries and China as a means of penetrating non-traditional markets and international marketing networks. This, they hope, will eventually lead to a diversification and an expansion of their exports. After concluding a countertrade deal, these countries are able to sell directly to the same markets where their deals were struck. China, for example, considers countertrade as an opportunity to introduce new Chinese products to western export markets. This is in keeping with the new economic reformist policies that have been underway there over the last eight years.

Lastly, the socialist countries and China mandate countertrade as a means of conserving foreign exchange and reducing their balance of payment deficits. This rationale is also cited by developing countries. Reference to their case will be made later.

The centrally planned economies of Eastern Europe use the city of Vienna, Austria as a place to arrange sophisticated multi-tier package deals that involve banks, trading companies, foreign trade agencies and finance houses. These deals include various forms of barter, compensation and counterpurchase, pre-export financing, forfaiting, cross-border leasing and private market insurance. The object and intent in all the financial dealings that are undertaken on behalf of the socialist countries is to ensure that in their trade with the West, much needed foreign exchange is earned and conserved.

The outlook for countertrade in the socialist countries of Eastern Europe and China is changing. Countertrade business has shrunk as these countries increasingly want to keep items that they countertrade for domestic consumption. Also, the CMEA countries are now credit-worthy and they find it cheaper and easier to

finance their imports.¹¹ China seems to be concentrating more on joint venture programmes rather than on counterpurchase or barter. Traditional countertrade specialists such as March Rich S.A., Phibros and Merban are all finding business tough-going. Optimism and jobs have dwindled as fewer profitable deals are concluded. A relatively new phenomenon that has developed is the counterpurchasing of services rather than goods in fulfillment of countertrade obligations. The countertrade specialists seem to have gone into trade finance and financial services.

For developing countries, the foreign exchange requirement has been advanced as the strongest rationale for countertrade. Many of them have accumulated large foreign debts. In addition, they continue to experience severe shortages and declining prices for their primary products. They see countertrade as a response to all this. In spite of mushrooming external debts and liquidity constraints, these countries are able to continue trading through countertrade. Countertrade does not increase their overall indebtedness nor does it deplete their foreign exchange reserves which may be earmarked for debt-servicing.

Another major factor in favour of countertrade is that it enables developing countries to improve their marketing intelligence, develop new direct sales, especially for their non-traditional exports and dispose of excess supplies of commodities via "incremental" markets. Many developing countries stipulate, as part of their countertrade operations, that the transactions be additional to normal trade. Others simply consider deals as trade that would have taken place anyway and do not insist on the principle of "incrementality" or "additionality".

Many developing countries have expressed through GATT and UNCTAD their dissatisfaction at the protectionist barriers which have been erected in the markets of the developed countries. Many also complain at the strict rules of origin criteria that have been stipulated by many developed countries in their programmes for preferential treatment of goods from developing countries. Whilst attempts are being made within GATT and UNCTAD to discourage protectionism and liberalise preferential trade agreements, developing countries feel that they can secure markets through countertrade and benefit from the importation of spare parts, materials, pharmaceuticals and machinery without cash transfers.

Some developing countries, particularly the large ones like India, Argentina, Brazil and Nigeria use countertrade as a means of obtaining up-to-date technology. Their state trading organisations display considerable market power in their countertrade negotiations. For example, India, which still does

¹¹ Trade Finance : Euromoney Publications, March 1987. No.47
p.53

not have an official policy on countertrade, has two agencies - the State Trading Company (STC) and the Minerals and Metals Corporation (MMTC) - through which countertrade deals are arranged. Together, they flex sufficient muscle as buyers. Their total imports for 1986-87 has been placed upwards of Rupees 40 bn (US \$3.1 bn).¹² In addition to this market power, the corporations are bolstered by the Ministry of Commerce regulations stipulating that all bulk imports, ship imports, oil imports and all capital goods imports of value exceeding Rupees 100m (US \$7.6m) would be governed by countertrade. This is enough to ensure importation of good quality products and high grade technology.

For many developing countries, countertrade operates as selective devaluation. The selective devaluation operates on a case by case basis for specific countertrade operations. In developing countries where exchange rates are overvalued, the discount that is applied to a countertrade deal, in effect, is a devaluation as the goods are exchanged at a rate below the official exchange rate. If several deals are struck and they carry several discount rates, these rates in effect become multitier exchange rates. Developing countries can therefore exchange goods and services at different rates without resorting to changes in their exchange rates. It is useful to note that the International Monetary Fund is quite averse to this method of exchange rate management. The Fund believes that this practice of selective devaluation through countertrade deals masks real long-term economic and balance-of-payments problems that need to be resolved by both monetary and fiscal policies. Many developing countries, notably in Latin America, continue to use countertrade in the manner described above, the position of the IMF notwithstanding.

¹² Trade Finance : Euromoney Publications, March 1988, No.59
p.49

CHAPTER II

THE CASE AGAINST COUNTERTRADE

The main argument against countertrade has been referred to somewhat obliquely. It is that it is complicated, risky and costly business. Countertrade is complicated because most of the deals are tailor-made to suit the needs and limitations of suppliers and clients. Many governments, particularly those in the third world that engage in countertrade, do not have sufficient previous experience. What experience they have gained has been mainly with other developing countries. The argument further states that because of the lack of experience of these governments, regulations and approval processes governing countertrade tend to shift unpredictably. They are often cumbersome.¹³

In addition to deals being complicated, they tend to cost too much. The high costs are as a result of disposing goods under non-optimal market conditions coupled with handling, storage and transportation costs as well as commissions for intermediaries. When governments use trading houses, especially the big established ones, the costs are even higher. Trading houses charge a single account composed of two elements:

- a) the subsidy or discount to be passed on to the ultimate buyer;
- b) the commission which would include finance charges, out-of-pocket expenses and a profit.¹⁴

Commissions are calculated as a percentage of deals. They could range from 1 - 5%.

There are other costs which have to be considered when deals are struck. They are legal, administrative and technical. Countertrade contracts tend to be concluded after lengthy negotiations. Normally, three separate contracts are involved in a deal: the principal contract under which the first party sells goods or services to the second party, the counterpurchase contract, and the protocol. A number of private international law issues are usually resolved. These relate to the terms of payment for the principal contract, the obligations to counterpurchase, performance or non-performance of a contract, arbitration and the settlement of disputes.

¹³ Trade Finance, Euromoney Publications, April 1988, No. 60 p.29

¹⁴ UNCTAD/ST/ECDC/32: Countertrade Policies and Practices by selected African and Latin American countries.

The administrative costs range from the setting-up of a focal point within government to co-ordinate countertrade matters to the physical handling of large quantities of the goods that are to be countertraded. Usually, it is a state trading corporation or a department of government. Elaborate lists have to be drawn up for goods that are to be countertraded. Appended to these lists are guidelines or ministerial directives that need to be followed in order to effect a countertrade deal. Reference to this has been made in the case of India and Peru in the previous chapter. Banks have recognised the need to control administrative costs through the setting-up of countertrade units. Citicorp, Bank of America, Barclays Bank and Manufacturers Hanover Trust have all established units to better serve their countertrade clients.

A number of secondary hidden costs are associated with countertrade. The risk involved in the uncertainties that relate to deliveries in terms of product quality (particularly perishable goods) and time is a cost. Economy-wide costs come from private distortions associated with countertrade. The effect of selective devaluation associated with discounts on deals could create export incentives and they might not necessarily be the most efficient in the economy. These same "shadow rates" affect goods imported under countertrade. The effect of a tax on these goods is borne by a large number of users. Any benefit that results only occurs to a small group of producers of the exported products.¹⁵

There is yet another argument against countertrade - it is that it tends to limit the incentives for autonomous marketing by state trading enterprises. Instead of exploring new marketing avenues and gearing themselves to meet export challenges, they settle for government-to-government deals, secure in the knowledge that their exports will find ready importers. They lose the opportunity to gain valuable trading experience which knowledge of markets confers. In no time, the argument runs, many of the state trading corporations begin to lose money and have to rely on massive state subventions to stay in business.

Whilst the above argument is somewhat true, it tends to blame state trading corporations for inefficiencies which might not necessarily be limited to countertrade. These corporations themselves could be poorly constituted and administered and as a result they would perform badly whether or not they do business in countertrade. Many state trading corporations in Asia, Africa and Latin America/Caribbean seem not to be able to do well even in direct market operations and as a result, they have to develop new trading channels including countertrade.

¹⁵ UNCTAD/ ST/ ECDC/ 27: Countertrade - experiences of some Latin America countries.

Another set of pointers against countertrade has to do with the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT). The Fund discourages countertrade and advises members that "the objective of countertrade could be achieved more efficiently through appropriate fiscal, monetary and exchange rate policies".¹⁶ The Fund believes that economy-wide price distortions, misallocation of resources, selective devaluations based on deals, inappropriate fiscal incentives for exports and the high opportunity costs of non-monetary transactions, in the long run, are harmful to the economies of countries that engage in countertrade on a routine basis. Obviously, the Fund would rather that countries that have reason to resort to countertrade use Fund-type measures to correct persistent macro-economic problems rather than employ non-economic measures that mask the need for corrective action.

Some countries, notably in the developing world, consider the Fund's view of countertrade too rigid. They feel that a number of countertrade transactions have offered them trade credits, particularly where conventional sources have dried up. They claim that the condition of additionally is sufficient guarantee to ensure that countertrade would enhance their total export trade and would not encourage substitution for direct market sales.

The situation with GATT is different. There, the problem is essentially a legal one. Since there is no legal regime that governs countertrade, the one that comes closest to serving this function is the GATT. The GATT rules do not mention countertrade or even treat it indirectly. Interpretation of the intent of economic principles in the GATT is what is sometimes used as a rationale. But trade lawyers argue that specific GATT articles prohibit countertrade. They cite Article XI which prescribes all prohibition applied to the imports of a contracting party. The buy-back provisions which require a foreign exporter to purchase local goods as a condition for his or her export is considered prohibitive under Article XI.

Two other articles are worth mentioning. Article XVII concerns state enterprises. They are required under GATT to act according to principles of non-discriminatory treatment and to make purchases and sales in accordance with commercial practices. Article XXIII prohibits action which impedes any objective of GATT. Since countertrade interferes with normal free-market trade, it is said to be contrary to GATT rules.¹⁷

Developing countries that are engaged in countertrade have used Article XII on import restrictions in order to ease up on

¹⁶ Welt, L.G. Countertrade, Euromoney Publications, 1985

¹⁷ Welt, L.G. Countertrade, Euromoney Publications, 1985

foreign exchange constraints and Article XVIII on quantitative restrictions to justify their use of countertrade. As far as they are concerned they are generating additional imports and exports.

CHAPTER III

FORMS OF COUNTERTRADE

Countertrade for many countries that practice it is an ad hoc activity. General policy guidelines do not exist. Deals are struck on a case-by-case basis though ministerial directives are used to safeguard vital national interests. The mechanics of countertrade vary according to local conditions, the goods to be countertraded and the current priorities of the parties concerned. Emerging out of all this has been a series of descriptions which characterise the types of countertrade technique used. This chapter will discuss them.

Barter

Barter has been defined as the exchange of goods between two or more parties under a single contract with no money changing hands.¹⁸ In barter deals, there are no letters of credit. Parties to the barter deal obtain from their respective bank "performance bonds" which ensure that in the case of default, the defaulting partner will compensate the other party in hard currency. A single contract covers the flow of goods between the two parties to the barter deal. Usually, the supply of the main products to be countertraded is held up until some revenue has been generated from selling bartered goods.

This form of countertrade is used widely in Africa and Latin America/Caribbean. In 1987, Libya offered 500,000 tons of crude oil to Uganda under an oil for commodities deal. Uganda supplied coffee, maize and beans in quantities that would pay for the oil. This deal was additional to a much more complicated and larger barter deal involving Italy's oil company AGIP and the Governments of OMAN and Tanzania. International oil companies were upset at this deal between Libya and Uganda. They felt that they were excluded from a market by cheaper oil from Libya.¹⁹

In the Caribbean, Jamaica signed a barter deal with the United States Department of Agriculture in 1982. The deal involved an exchange of 9,115 metric tons of dairy products for 400,000 tons

¹⁸ Welt, L.G. Countertrade, Euromoney Publications, London 1985 pp 10 -11

¹⁹ Trade Finance, Euromoney Publications, Sept. 1987, No. 53

of bauxite.²⁰ A sample of the above agreement is provided in Annex II of this report. Figure 1 shows how a typical barter deal works.

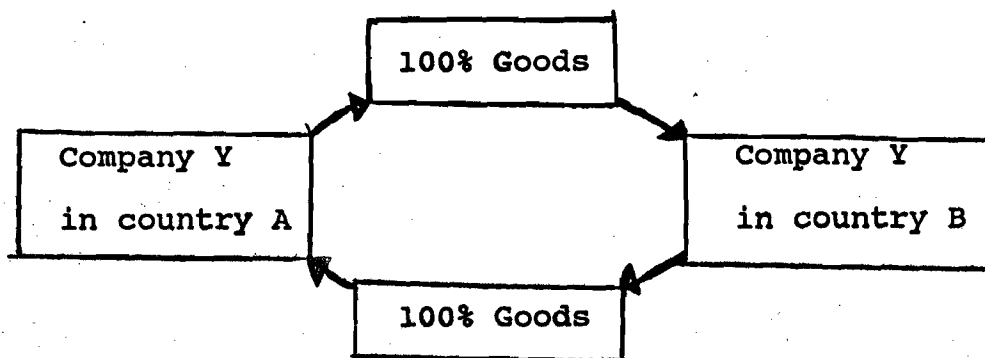


Fig. 1

The following is a model list of provisions that might be included in a barter contract, setting out the major provisions to be utilized in formalizing the barter transaction.

Barter contract checklist

parties

recitals

acknowledgement of obligation of first party to provide and accept goods

acknowledgement of obligation of second party to provide and accept goods

first party goods

- description of goods, specifications
- quantity
- time, terms and other deals regarding delivery
- packing
- shipping
- insurance
- documents, documentary transfer

second party goods

- description of goods, specifications
- quantity
- time, terms and other details regarding delivery
- packing
- shipping
- insurance
- documents, documentary transfer

²⁰ Information supplied on mission, June 1986. Also quoted in L.G. Welt's Countertrade, op. cit

bank guarantees providing for full payment in the event of the non-performance of one party
 guarantee of quality, quality control
 right to inspect
 determination and settlement of claims
 penalties (or other agreed upon arrangements) in the event of:

- late delivery
- delivery of non-conforming goods
- failure to deliver
- force majeure
- arbitration
- choice of law.

Counterpurchase

Counterpurchase is perhaps by far the most commonly used countertrade technique. Usually, there are two separate contracts "linked" under a protocol. One agreement covers the export sales of a firm whilst the other the purchase from the trading partner. The protocol that links the two usually sets out penalties and procedures for non-performance, financing arrangements and risk guarantees. The two sales agreements are negotiated and executed simultaneously.

The first agreement in the counterpurchase deal is usually a standard contract that sets out information relating to the quality, quantity, time and place of delivery of the specified product. It also sets out the price of the product and the terms of payment, usually in hard currency. The second agreement sets out the obligation by the first party to purchase goods from the second party. This is usually a much broader agreement. In it, the first party would be required to select from a wide selection of goods available for export from the second party and would allow the first party to fulfill its purchase obligation within a specified time period after the execution of the agreements.²¹

Banks are largely responsible for the separation of contracts in counterpurchase deals. They usually view counterpurchase deals as complex and risky. They normally like to have the two separate independent contracts so that they could evaluate their clients (usually the second party in the counterpurchase deal) on their own merits. They are reluctant to extend credit to someone where ability to repay is dependent on expected earnings from a counterpurchase transaction.

Counterpurchase deals typically last from 6 months to 3 years. Some do go beyond this period. A new variant has recently been

²¹ Report on countertrade workshop; Caribbean Association of Industry and Commerce, July 1986.

introduced. Reference has already been made to the practice of counterpurchasing services as part of a countertrade deal. Types of services offered are usually office and display space, construction, research and advertising.

A recent counterpurchase deal has been reported in trade journals. In 1987, Standard Chartered Bank arranged a deal between Zimbabwe and Egypt whereby Zimbabwean tobacco was sent to Egypt and in turn, a wide variety of distressed Egyptian products was taken out. These were then sold in the European market and the proceeds used to purchase high priority plastic raw materials required by Zimbabwe's packaging industry.²² Figure 2 illustrates a counterpurchase deal.

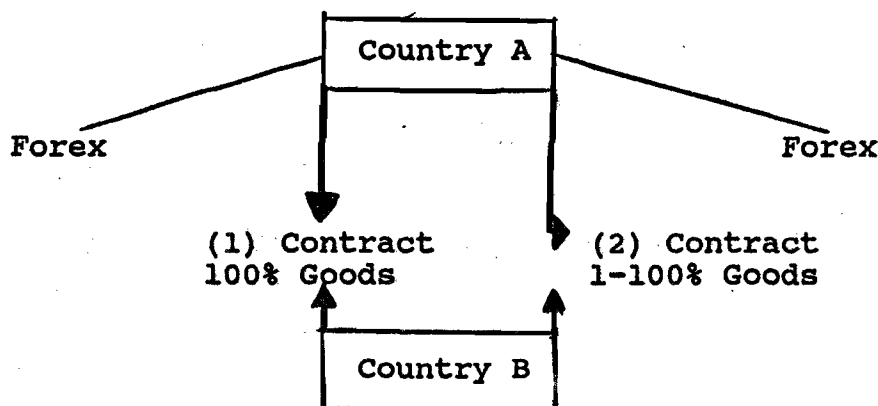


Fig. 2

The above figure shows the workings of a simple counterpurchase contract (parallel contract). Two variations of it are sometimes followed. These are known as advanced purchases and linked deals. An example of a counterpurchase deal between Guyana and Barbados will be referred to when the policies and practices of the two countries are discussed later.

The following is a model list of provisions that might be included in a counterpurchase contract. This list is not exhaustive, it is merely indicative. At all times, legal advice should be sought before contracts are signed.

²² Caribbean Association of Industry and Commerce; Report on countertrade workshop July 1986.

Counterpurchase contract checklist

1. Protocol
2. Primary Sales Agreement
 - parties
 - recitals
 - acknowledgement of obligation to purchase goods
 - description of goods, specifications
 - quantity
 - price, terms of payment
 - packing
 - shipping
 - insurance
 - documents, documentary transfer
 - guarantee of quality, quality control
 - right to inspect
 - right to neutral surveyor
 - determination and settlement of claims
 - penalties, remedies (or other agreed upon arrangements) in the event of:
 - late delivery
 - delivery of non-confirming goods
 - failure to deliver
 - force majeure
 - arbitration
 - choice of law
3. Secondary Sales Agreement
 - parties
 - recitals
 - acknowledgement of obligation to counterpurchase goods
 - list of available goods
 - specifications, description, quality
 - quantity of counterpurchase
 - price, terms of payment, guarantee thereof
 - time period in which to fulfill obligation
 - terms and other details regarding delivery
 - linkage
 - marketing restrictions
 - packing
 - shipping
 - insurance
 - documents, documentary transfer
 - guarantee of quality, quality control
 - right to inspect
 - right to neutral surveyor
 - determination and settlement of claims
 - first party penalties, remedies
 - cancellation of first sales agreement

- transferability of counterpurchase agreement
- force majeure
- arbitration
- choice of law

Compensation (or buy-back)

The compensation or buy-back transaction consists of the sale of plant, machinery, equipment, technology or complete manufacturing processes to a second party with a contractual commitment on his/her part to buy back goods that are produced by or derived from the equipment in the original sale. Compensation arrangements usually take several years, are more complicated than counterpurchase deals and their values larger. Arrangements could range from 3 years to sometimes 25 years depending on the magnitude of the project and the start-up time associated with construction of factory or plant.

As with counterpurchase arrangements, compensation is organised by means of two separate agreements, linked by a protocol. The reasons for this are similar to those for counterpurchase deals. The protocol, however, assumes greater significance. It ensures that counterdeliveries are produced with the technology and equipment delivered in the original sale.²³

There are two points worth mentioning about compensation. The first party to the deal would normally exercise sufficient care in respect of sections of the terms of the agreement relating to equipment supply and technology transfer. This would protect its international competitive position. It would also enable the second party to undertake production of the buy-back goods without getting entangled in legal problems associated with industrial property rights. The second point is that compensation agreements do result in saturation of markets. These markets are sometimes the same ones in which the firm selling the buy-back product is also trying to sell its own similar product. This leads to dumping and other practices to ensure minimum sales. Example of a buy-back deal has been referred to already (p. 16).

²³ Leo G. Welt, Countertrade, op. cit. p.15

Below is figure 3 which illustrates the deal.²⁴

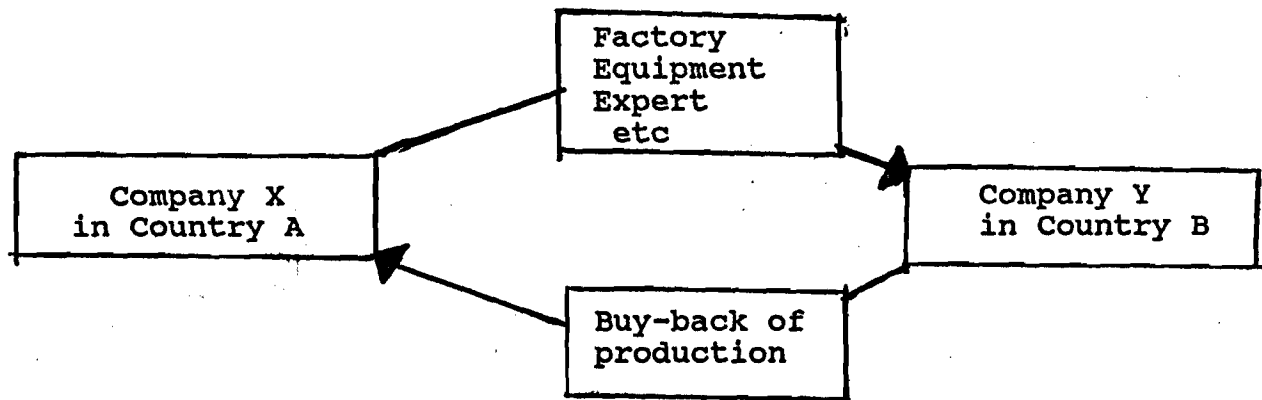


Fig. 3

Below also is a check list of a model compensation contract.²⁵
The caveat in the previous section also applies.

Compensation Contract Checklist

- | | |
|--|---|
| 1. Protocol | such as performance of equipment/technology, roles played by employees, consultants and technical advisors, and overall operation of equipment/technology |
| 2. Primary Sales Agreement | |
| - parties | |
| - recitals | |
| - acknowledgement of obligation to purchase equipment/technology | - packing |
| - description of equipment/technology, specifications | - shipping |
| - price, terms of payment | - insurance |
| - method of payment, guarantee thereof | - documents, documentary transfer |
| - time, terms and other details regarding delivery | - guarantee of quality, quality control |
| - additional provisions related to specific aspects of agreement | - right to inspect |
| - penalties (or other | - right to neutral surveyor |
| | - determination and settlement of claims |
| | - marketing restrictions |

²⁴ L.G. Welt, Countertrade, op.cit. p.15

²⁵ Caribbean Association of Industry and Commerce; Report of Countertrade Workshop, op. cit p.16

agreed upon arrangements)
in the event of:

- late delivery
- delivery of non-conforming goods
- failure to deliver
- force majeure
- arbitration
- choice of law

3. Secondary Sales Agreement

- parties
- recitals
- acknowledgement of obligation to counter-purchase goods
- list of available goods
- specifications, description, quality
- quantity of counter-purchase
- price, terms of payment, guarantee thereof
- time period in which to fulfill obligation
- terms and other details regarding delivery
- linkage

- packing
- shipping
- insurance
- documents, documentary transfer
- guarantee of quality, quality control
- right to inspect
- right to neutral surveyor
- determination and settlement of claims
- first party penalties, remedies
- second party penalties, remedies
- cancellation of first sales agreement
- transferability of counter-purchase agreement
- force majeure
- arbitration
- choice of law

Offsets

Offsets have been defined as a range of commercial and industrial compensation practices required as a condition of the purchase of military related exports or commercial sales of defence articles and services.²⁶ Military countertrade (as offsets are sometimes called) dates back to about 1961 when U.S. President John F. Kennedy (and before him President Eisenhower), facing increasing balance of payments deficits strongly urged West Germany to "offset" the foreign exchange costs of keeping troops in Germany by buying American weapons.²⁷

Today, offsets may include a wide range of industrial practices such as joint venture production, licensed production,

²⁶ Weida, W.J.; Paying for weapons: Politics and Economics of Countertrade and Offsets: Frost and Sullivan Press; New York, 1986

²⁷ Treverton, G.F.; Economics and Security in the Atlantic Alliance, Survival Volume XXVI No. 6; Nov./Dec., 1984 p.18

sub-contractor production and buy-backs. The economic arguments against offsets are similar to those made against countertrade in general. The arguments for them are persuasive. Since there is no free market in the supply of arms and that external restrictions are present all the time, it makes sense for Governments to be involved in offset trading. The argument further states that it would seem to be in the best interest of countries with large armament industries to foster bilateral relations with their arms customers. The experience of these countries has been that without offsets there would hardly be any military export sales.

The U.S. and Canada did two separate studies in 1984 on countertrade, particularly offsets. The U.S. study covered 520 corporations with export sales in 1984 of \$127 billion. About \$7.1 billion of that total was affected by countertrade, 80% of which were offsets of military and aerospace products (approx. \$2.8 billion). The Canadian study found at least 2 - 3 percent export sales involved countertrade. The value of the transactions including offsets increased eight times between 1980 and 1984. Figure 4 below illustrates an offset deal.²⁸

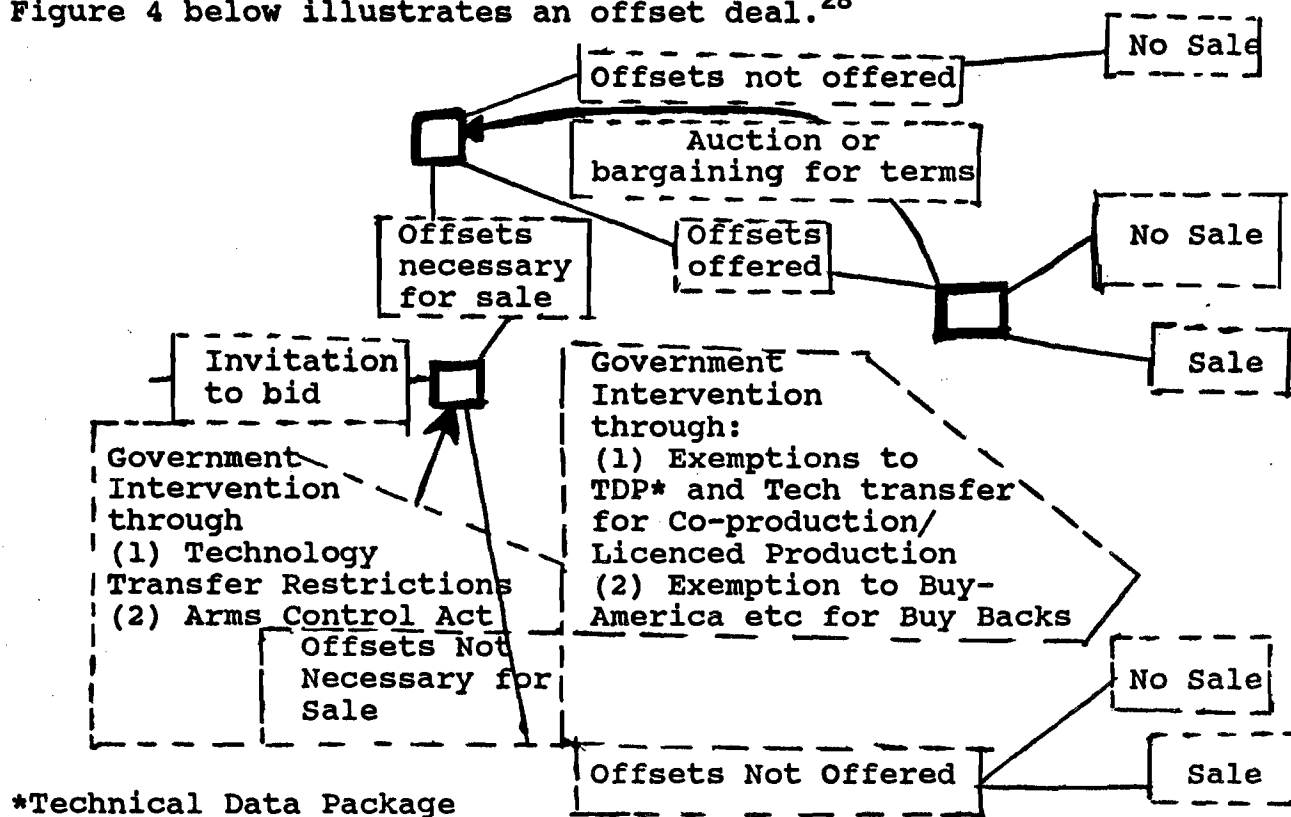


Fig. 4
The Offset Decision Process

²⁸ Weida, W.J.; Paying for weapons: Politics and Economics of Countertrade and Offsets. Frost and Sullivan Press, New York, 1986

Joint Ventures

Reference was made at the beginning of this study to the growth of joint venture operations by China in preference to traditional countertrade practices. A number of other developing countries with large resource endowments have also been involved in numerous joint venture operations - Nigeria, Argentina, Brazil, India and Algeria. These countries prefer joint ventures to straight foreign direct investments, especially if the sector concerned is vitally important to their economies.

Many joint venture agreements entail the transfer of technology to a trading partner in exchange for large contracts for turnkey plants. The technology transfer could be in the form of licensing, joint production of parts and sub-contracting. The contract that facilitates the deal ensures the second party's right to transfer technology, its right to use the company's brand name and its right to distribute in certain markets. The supplier of the technology exercises major control over manufacturing and marketing.

For developing countries, joint venture deals involving transfer of technology have become extremely valuable. Having paid high and unwarranted prices for capital goods and technology in the past, they now wish to have direct assistance in marketing and production. Countertraders are becoming involved in this process. Recently, Scandanavian Trading Company (STC) formed SCANOL, a joint venture with the Colombian Shippers Flota Mercante Grancolombia, which is controlled by the National Federation of Coffee Growers of Colombia. The aim is to supply technology to increase Colombian coffee exporters.²⁹

There are many variants of joint venture deals. Developing countries have become sophisticated at them and are able to negotiate sound arrangements with both East and West.

Evidence Accounts

This practice refers to an arrangement between an exporter and an importing country under which purchases by the exporter are automatically credited against its sales.³⁰ Evidence accounts are used to facilitate trade flows in counterpurchase deals or when there has been a significant increase or there is expected to be a significant increase in trade between two parties. Parties to an evidence account arrangement would normally open reciprocal lines of credit and exchange quantities of goods over a specified

²⁹ Trade Finance, Euromoney Publications; Sept. 1988 No. 65 pp.25 - 31

³⁰ Leo G. Welt; Countertrade op. cit p.17

period, usually lasting from one to three years. This period is used for balancing accounts.

Private firms use evidence accounts in order to avoid having to negotiate a countertrade deal every time they make a sale to a country. There are some disadvantages with evidence accounts. They cannot be re-negotiated. Commitments to import are strictly adhered to. Monitoring individual transactions by the assigned two banks can be costly. Also, participating firms do not seem to have any incentive for increasing exports beyond levels set by the terms of the agreement setting up the evidence account. Finally, there is the risk that a party to an agreement might make large advanced purchases which might be less than the penalties provided for under the agreement setting up the account. Figure 5 shows how evidence accounts operate.³¹

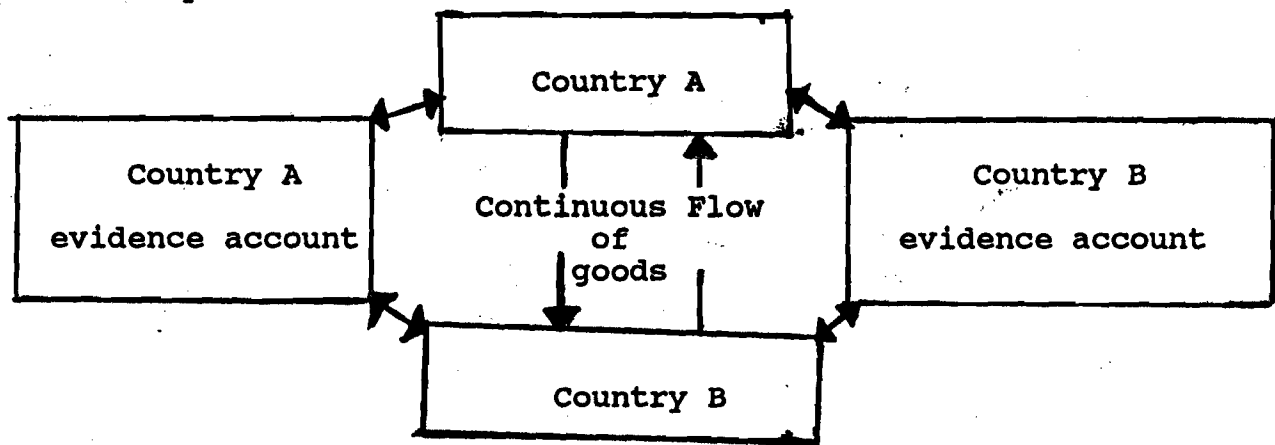


Fig.5

Switch Trading

This is the practice whereby a trading partner with surplus credit in an evidence account transfers his purchase rights to a third party, usually a switch trading house. The trading house then buys goods from the partner with deficit in its clearing accounts. These goods are then bartered several times by the trading house until goods are obtained that could be sold for hard currency. The hard currency earnings are then passed on to the trading partner with the surplus credit, less the trading house's discount.

³¹ Leo G. Welt; Countertrade op. cit

A switch deal invariably involves "switching" from one currency to another, usually from a non-convertible to a convertible currency. Switch deals could be bilateral or triangular. The switch dealer, who is invariably in the centre of the transactions, is usually someone with access to hard currency. Switch deals are mainly for consumer goods or semi-manufactured goods. Capital goods are rarely included in deals. The goods involved are usually products that do not have a ready market.

CHAPTER IV

POLICIES AND PRACTICES IN CARIBBEAN COUNTRIES

The economies of the Caribbean countries, like those of many other developing countries, have been going through difficult times. Intra-Caricom trade has somewhat begun to pick up after registering about 4% for the last three years. The growth in exports has been dampened by economic problems in Trinidad and Tobago, the dominant economic force in the English-speaking region. With the exception of the OECS States, the availability of foreign exchange is a major constraint. Jamaica, Guyana and Trinidad and Tobago have instituted strict foreign exchange regulations in order to better manage their foreign exchange resources. This foreign exchange constraint and the need to increase exports and pay for essential imports has resulted in the use of countertrade. This section surveys the policies and practices of Jamaica, Guyana, Suriname, Barbados and Trinidad and Tobago with respect to countertrade.

Jamaica

Jamaica is undoubtedly one of the leading countertrade countries in the English-speaking Caribbean. Institutionally, Government has set up a countertrade committee consisting of representatives from the Bank of Jamaica, the Jamaica Commodities Trading Corporation (JCTC), the Jamaica National Investment Promotion Ltd. (JNIP) and the Bauxite Trading Company of Jamaica (BATCO). All countertrade deals have to be submitted to the committee. BATCO and JCTC act on behalf of Government in carrying out all deals. As of the time of writing, the secretary of the countertrade committee is an official of BATCO.

There are no specific legislation governing countertrade in Jamaica. The countertrade committee has essentially a number of criteria that must be satisfied before a countertrade deal could be approved. These are:

- a) that the deals must generate new exports;
- b) that the barter aspects of any deal be done on the Jamaica value-added component of the goods;
- c) that the goods or services traded be limited to those that Jamaica has a real need for;
- d) that the deals must result in some form of employment generation;
- e) that the deals must generate new investment.

The last two criteria have not always been followed. This aside, the above guidelines or criteria represent the most liberal in all of Latin America. The guidelines do not carry penalty clauses or guarantee requirements. Use has been made of evidence accounts, escrow accounts, switch-trading and goods-for-services barter.

Products made available for countertrade are bauxite, alumina, tobacco, gypsum, soya beans and off-season tourism. In addition to government-to-government deals, there are a number of private sector to private sector deals that have taken place. Information on these were hard to come by as transactions which at times could be intra-firm arrangements were not reported to the countertrade committee. The deal that is commonly referred to is the barter deal between the Jamaican government represented by BATCO and the U.S. Government represented by the Commodity Credit Corporation, an agency of the U.S. Department of Agriculture. In this 1982 agreement, BATCO agreed to sell C.C.C. 400,000 long dry tons of metal grade bauxite in exchange for 7,238 metric tons of non-fat dry milk and 1,905 metric tons of anhydrous milk fat. See Annex II for text of the agreement.

There are other deals that have been made. In 1980, a seven year deal was concluded for Soviet machinery and equipment and Lada cars. In 1982, a deal between the Chrysler Corporation of the U.S.A. and the Jamaican government was also concluded. Again bauxite was exchanged for cars and trucks. In 1983, Guyana and Jamaica concluded a deal in which Guyanese rice was exchanged for Jamaican soya-bean mill rollers. At the time of the mission to collect data, there were two possible deals with Yugoslavia and the Peoples Republic of China that were talked about. The Yugoslav deal was for pre-fabricated houses and construction material in exchange for bauxite.

On balance, it would seem that Jamaica believes that countertrade has been beneficial. The country has had a severe foreign exchange crisis for many years now. In the past decade, the country has resorted to IMF credits several times. At the end of September 1987, total outstanding IMF credits stood at US \$630 million. Only about 23% of Jamaica's debt was incurred on concessional terms.³² This means that Jamaica's commercial debt is staggering. The country needs to borrow heavily to finance its trade and service its external debt. In such circumstances, therefore any additional means of allowing trade to grow, particularly the bauxite trade, can only be good for the country.

³² J.I. Stone: A Survey of Trade Finance in the English-speaking Caribbean Countries: Report prepared for the UN Economic Commission for Latin America and the Caribbean; April 1988.

Countertrade has enabled Jamaica to make important in-roads, for sale of its bauxite, into the Eastern European market. The deals with the U.S.S.R., China and Yugoslavia have meant that these countries have now established trade links with Jamaica. Through the countertrade deals, Jamaica was able to bring in much needed transport and agricultural equipment.

A questionnaire was sent to the countertrade committee requesting detailed information on Jamaica countertrade (see Annex III for sample of questionnaire). Another was also sent to JCTC. As of the time of writing, no response was received.

Guyana

Countertrade policies in Guyana have undergone major changes. These changes were brought about after an extensive review of Government policy on countertrade that started in late 1986. As part of that change, responsibility for countertrade was moved from the Department of International Economic Co-operation (D.I.E.C.) to the Ministry of Trade and Tourism. According to officials, the review brought out the fact that Guyana was not benefitting as much from countertrade as had been previously envisaged. The view was expressed that most of their countertrade partners were more experienced in the business than Guyana was and as a result, they gained more from deals. What the government was now emphasizing was investment in order to exploit Guyana's vast natural resources. There was need to bring to the country technology and management resources from the Caribbean and elsewhere through joint venture operations.

In response to the questionnaire sent to DIEC in 1986, it was stated that government engaged in countertrade for the following reasons. Firstly, there was a shortage of foreign exchange coupled with lack of access to external credit facilities. There was also a need to off-set the country's official debts, to gain access to new markets to increase the country's exports, to acquire relevant technology for local manufacturers and to gain access to a valuable supply source.

The rationale for the above policy framework could be understood better by reference to some data. According to Central Bank officials, Guyana's medium and long-term external public debt outstanding at the end of 1985 was US \$692 million, approximately three times its G.N.P. for the same period. External payment arrears, as of June 1986, came to US \$827.5 million. This figure includes the US \$126.2 million owed to the Caricom Multilateral Clearing Facility. Because of the severity of the foreign exchange problem, Government instituted an external payments deposit scheme whereby both state trading companies and private firms deposit local currency in advance with commercial banks for imports of commodities and services. By this means, Government is able to

monitor both public and private commercial debts and ensure that there was sufficient foreign exchange to cover imports. In the light of this severe financial constraint, Government pursued countertrade.

According to information supplied to us, Government has used barter, buy-backs, counterpurchase and government-to-government arrangements. There is no mandated countertrade. Both state corporations and private firms engage in countertrade through "administrative persuasion". Much of government countertrade deals have been done by state corporations. The Ministry of Trade and Tourism acts as the focal point. Sometimes, the Ministry has had to use the services of external agents, notably the Crown Agents of the United Kingdom for the purpose of verifying the quality of goods being exchanged in deals.

At the time of writing, it was expected that Government would publish a paper on countertrade and in it would be guidelines and regulations as to how the trade should be conducted. This publication is not yet out. Prior to 1987, there were guidelines but these were never published. They were considered internal procedures which were followed by D.I.E.C. There is a formal countertrade committee made up of officials from the Central Bank, the State Planning Secretariat, the Ministry of Finance, Office of the President (Economic Adviser), and Ministry of Trade and Tourism.

The following selected data on goods exported and imported through countertrade were reported in December 1986.

EXPORTS

<u>ITEM</u>	<u>VALUE IN GY\$</u>
a) Peeled shrimp	7,675,918.1
b) Balata	3,181,816.0
c) Timber	1,155,487.0
d) Garments	361,000.0
e) Fish	339,105.2
f) Bauxite	3,714,612.9
g) Rice	1,875,000.0

IMPORTS

<u>ITEM</u>	<u>VALUE IN GY\$</u>
a) Foot wear	4,700,201.9
b) Motor vehicles and spares	1,762,409.9
c) Tallow	1,234,545.0
d) Spare parts (other than motor vehicle spares)	737,450.0
e) Electrical accessories	734,346.8

The official rate of exchange at December 1986 was GY\$4.20 = US\$1.00.

Source: Department of International Economic Co-operation (D.I.E.C.), Government of Guyana.

The estimated value of all exports through countertrade by December 1986 was put at GY\$22,283,200.00. The estimated value for imports was GY\$18,864,429.00. The following are the countries that have had countertrade agreements with Guyana:

Cuba	Jamaica
U.S.S.R	Trinidad and Tobago
Japan	St. Vincent and the Grenadines
German Democratic Republic	Barbados
Bulgaria	Panama
North Korea	Curacao
Venezuela	

Officials at Guyana National Trading Corporation indicated that countertrade had enabled the corporation to avoid overpayment for imports. Also, since the corporation is unable to benefit from long-term contracts because of the country's acute foreign exchange problem, countertrade has enabled it to secure vital imports in very difficult economic times.

At the Guyana Forestry Commission, important information was provided on deals. Brief references will only be made to them here. In 1986, the Commission made available 2,000 cubic meters of wood as part of a barter deal with Cuba. In exchange, Cuba supplied cement, steel rods and pharmaceutical products. In the same year, the Commission, through two private saw millers, made available an unspecified quantity of lumber to Trinidad and Tobago

for steel plates. The same arrangement was entered into with Curacao in exchange for sanitary and other toilet fittings. A private deal was struck between one saw-miller in Guyana for the supply of lumber to an Antiguan business in exchange for building materials.

Two deals struck with Barbados are worth mentioning. In 1985, a Barbadian company worked out a deal with SAPIL of Guyana by which SAPIL supplied the raw materials for the manufacture of cardboard boxes corrugated in North America by Barbadian investors in return for a franchise from SAPIL for supplying the Caribbean market. The other deal concluded in 1986 provided for Stokes and Bynoe, a Barbadian registered company to make funds available to the Guyana Pharmaceutical Company for the purchase of pharmaceutical products in exchange for Guyanese products (fish, shrimps). These products were then sold in the open market and profits went to repay the funds made available initially by Stokes and Bynoe and to liquidate the debt Guyana owed to Barbados under the Caribbean Multilateral Clearing Facility (C.M.C.F.).

Guyana's vast experience with countertrade is one that many others countries in the region could learn from. However, as had been noted earlier, Government's policy on countertrade has changed. Direct market sales are to be preferred at all times. Greater use will be made of the foreign exchange retention scheme which the Government had instituted for some time now to help export businesses enjoy the benefits of taking risks in the export market. For some state corporation officials, this change is long overdue. They have had some difficulty in the past in accepting directives from D.I.E.C. or the Ministry of Trade and Tourism in making available quantities of fish or other products for countertrade, when according to them, there were unfulfilled orders for direct market sales. The effect of this change of policy has yet to be assessed.

Suriname

Countertrade in Suriname is a recent phenomenon. The country seriously considered it as an aspect of its external trade because of the economic difficulties that resulted from the suspension of Dutch aid in 1982. One immediate effect of the suspension was drastic shortage of foreign exchange. A high importing country like Suriname suddenly found itself unable to meet its external debt obligations. As a result, overseas suppliers became reluctant to extend credit on a long term basis. Commercial houses had to reduce their import requirements as the Central Bank was not prepared to readily make available scarce dollars and dutch guilders.

Although Government had decided to embark on countertrade, it had not developed any set of regulations or guidelines to govern

the trade. There is no countertrade committee in Suriname. The institution that has responsibility for countertrade is the Ministry of Economic Affairs. They have a supervisory role as they ensure that deals are in keeping with Government's overall economic strategy. All deals can be government to government, private sector to private sector and government to private sector. A Foreign Exchange Committee has been established and amongst other things it approves deals that involve the transfer of funds. The Foreign Exchange Committee is made up of representatives from the Ministry of Finance, the Ministry of Economic Affairs and the Central Bank. The Ministry of Finance's position would seem to have primacy over the other two members.

The law that governs countertrade in Suriname is the Foreign Exchange Law of 1947. There is provision in that law for barter. It would seem that this law is sufficient for the country's external trade transactions. Members of the business community, however, feel that it is too old and needs repealing. They argue that the country's political and economic situation has changed a lot and that these changes would have to be reflected in up-to-date provisions of the law that governs import and export trade.

Government officials did not seem to have any difficulty with the foreign exchange law as far as countertrade was concerned. They indicated that different ministries and state corporations had the authority to negotiate deals provided the Ministry of Economic Affairs was involved at all stages of the negotiations. Officials at this ministry indicated three principles on which countertrade was conducted:

- that non-traditional exports will be favoured;
- that the goods imported under countertrade must be "basic goods";
- that where traditional exports were used, they must have an incremental value to direct market sales.

Two main products have been used in countertrade - wood and rice. No deals have been struck with Eastern European countries or China. Deals have been made with the West, with two private firms - O.N.Y.X. Trading Corporation, a subsidiary of the FIAT motor corporation and an equipment firm in West Germany.

Suriname's experience with the barter deal on rice was a bad one. The barter agreement in 1985 between the Suriname Rice Export Corporation (S.U.R.E.X.C.O.) and O.N.Y.X. provided for the delivery of rice by SUREXCO for a period of five years to ONYX. ONYX was to supply Suriname with several items including cars and equipment for agriculture and forestry. Problems started when Suriname supplied the first consignment of rice and had to wait for a long time before O.N.Y.X. made the first shipment of agricultural and

forestry equipment. It turned out that the items supplied were of the wrong specifications. Furthermore, Suriname realised that the rice it had supplied O.N.Y.X. was being dumped in the same markets in Europe in which Surinamese rice had been sold for years. Surinamese rice was therefore competing against Surinamese rice at below market prices. In addition to delivering the wrong items of equipment, O.N.Y.X. failed to supply equipment to the value of the rice it had taken delivery of. Legal battles ensued in U.S. district court and an initial judgement was given in favour of Suriname to the amount of US \$8 million. There are still outstanding legal problems to be resolved.

As a result of the above experience, officials at SUREXCO have pushed for direct sales to Europe and the Caribbean (mainly non-English speaking Caribbean countries). These officials have advocated stronger economic ties with CARICOM countries, especially Guyana. They mentioned the possibilities of setting up joint marketing programmes to sell rice in the E.E.C market. Other officials talked about the possibility of Guyana sugar being countertraded for Surinamese edible oils.

The other product that has been countertraded in Suriname is wood. Approximately 14.8 million hectares (or 90% of the country's land) are classified as forests or natural vegetation. The country also has 22,000 hectares of plantation forests. Responsibility for managing this vast reserve rests with the Ministry of Natural Resources, particularly its forest reserve service. Timber concessionaires range from small individual loggers to large enterprises like Bruynzeel Company and Suriname Timbers Limited.

About 300 species of timber have been identified. Of this total, about 50 species are commercially viable. The local market for wood is very good and average prices have been put at four times higher than the world market price. This is due to heavy demand in the construction industry. The export market to Holland, French Guiana and Martinique is excellent. Data from the Ministry of Natural Resources show that these countries absorbed 25.9%; 28.3% and 19.8% respectively of the 1987 timber exports from Suriname.

Given the excellent export prospects for wood, the Government has used countertrade to attract foreign investment in a sector that has unlimited potential. It is in this context that the Ministry of Natural Resources facilitated the conclusion of a large buy-back deal worth 16 million Surinamese guilders between a German equipment firm and SUHIM, a private saw-miller, for the construction of a large sawmill. Payment will be in the form of purchases of wood and wood-products to the value of the original investment. This is a good deal and more than makes up for the rice deal fiasco.

In discussions with some Government officials, the view was expressed that there was need to put some order in the countertrade business in Suriname, both official and private sector arrangements. Private sector officials made a number of suggestions with respect to foreign exchange management, import/export policy and over-centralisation of economic decision making. Their comments were useful. The general view was that government should bring in the private sector more and more into economic decision making as this would facilitate a number of policy initiatives, including countertrade.

Barbados

Countertrade in Barbados is not an important trade policy instrument. The economy of this island state has been managed efficiently. Given this and the fact that foreign exchange constraints do not exist within the economy, there has not been any need for Government to pursue a countertrade policy. Institutions have been put in place to help finance the country's export and import trade.

The Central Bank of Barbados houses a Credit Insurance and Guarantee Department. This department was established in 1978 to provide both pre and post shipment finance for Barbadian exporters through the intermediary of the commercial banks. An export re-discount facility was set up to boost non-traditional exports. On the import side, commercial banks and other finance houses have been generous with trade credits. At a recent meeting of an Ad hoc Group of Experts on Trade Finance, Transnational Banks and External Finance sponsored by the UN Centre on Transnational Corporations and the UN Economic Commission for Latin America and the Caribbean, it was reported that the manufacturing and distribution sectors accounted for over 80% of total outstanding trade credits for the period 1976 - 1986.³³ Further observations were made at the meeting that banks had no difficulties in advancing credits for imports and consumer loans. They were, however, cautious with respect to export financing.

Given the above arrangements, government officials feel that Barbados does not need official countertrade. This is not to say that the trade does not take place. Reference has already been made to two private sector deals with Guyana. The deal involving Stokes and Bynoe (Barbados) Limited realised about BD \$12 - 15 million annually. It was beneficial to the Government of Barbados in so far as part of the profits from the deal went to liquidate Guyana's obligation to Barbados under the C.M.C.F.

³³ U.N.C.T.C./U.N.E.C.L.A.C.: Report of the Ad hoc group of experts on Trade Finance, Transnational Banks and External Finance, 17 - 19 May 1988, Bridgetown, Barbados. p.20

Private entrepreneurs in the garment industry spoke about countertrade possibilities for both outer garments and underwear. Since the collapse of the Trinidad and Tobago market, garment manufacturers have had a difficult time selling their product. Any worsening of the plight of Barbadian manufacturers with respect to export sales might prompt them to consider syndicated countertrade deals involving several companies in order to make up for losses in the Trinidad and Tobago market.

Trinidad and Tobago

Countertrade in this country, as in some of the other countries reviewed in this study, has been going on informally for a long time. Private traders have been able to bring in goods (particularly fresh fruits, vegetables, fish and shrimp) from Guyana, Grenada, St. Vincent and other small islands, exchange or sell them for manufactured and semi-manufactured goods which are subsequently taken back and resold in these countries. In the so-called "boom years", the economy of Trinidad and Tobago flourished. Manufacturing activity was quite bouyant and so it was easy for private traders to obtain a vast array of goods. Demand for agricultural products was high and so the importation by private traders went some way in satisfying this demand.

Companies have also been involved in some form of countertrade. Much of the deals really have been intra-firm arrangements, particularly where transnational corporations were involved. Individual proprietorships have also been able to make arrangements for the exchange of goods between them and their business counterparts elsewhere in the region or in North America. Much of this trade in the past had gone on without government interference. At present, in order to comply with trade and foreign exchange requirements, these firms now have to disclose these exchanges.

Countertrade as practised by the numerous state corporations in Trinidad and Tobago is by far the most prevalent. Many of these corporations have had to develop close ties with foreign companies either for investment or marketing purposes. The close ties fostered many economic activities, including countertrade.

The practice of countertrade in this country can be divided into two periods - pre-1988 and 1988/9. Before 1988, the Government undertook countertrade through its state corporations in order to increase the country's exports, to gain access to foreign markets and to acquire relevant technology for local manufacturers. In 1988/9, countertrade has been pursued because of serious foreign exchange constraints, the need to improve the country's balance of trade and to lessen the impact of taxes and tariffs on imported raw materials for industry. Government is

presently interested in commercial countertrade, though in the past, it had engaged in some industrial countertrade, especially in steel and steel-products.

In respect of general policy guidelines on countertrade, Government concerns are the following:

- Regulations will be developed to govern the trade. However, some flexibility will be followed in their application.

- Deals will have to be approved as part of a package by an inter-ministerial body for this purpose. Ad hoc arrangements will not be encouraged.

- Countertrade on a purely commercial basis will not be pursued. Deals will have to meet other criteria such as their consistency with Government's overall economic policy.

- Government will desist from countertrade that simply supplied raw materials to the industrialised countries of the North. The products to be countertraded will be determined by Government at all times.

- Government will be mindful of the objections to the trade by international institutions such as the IMF, World Bank and GATT. Obligations under GATT will be fulfilled.

A countertrade committee has been set up to prepare a comprehensive national policy on countertrade. Its composition is inter-ministerial. Below is a listing of deals made in the recent past:

A counterpurchase agreement was concluded between the Iron and Steel Company of Trinidad and Tobago (ISCOTT) and SIDOR of Venezuela. This one-year contract stipulated that ISCOTT would purchase between 360,000 to 450,000 tons of iron ore billets from SIDOR at US\$ 30 a ton. SIDOR, in return, would purchase between 240,000 to 300,000 tons of DRI from ISCOTT at US\$ 100 per ton. This deal is estimated to bring in more than \$ 21 mn. in foreign exchange.

An offset agreement was concluded between Guyana and Trinidad and Tobago whereby Guyana would supply Trinidad and Tobago with rice as payment to liquidate that country's debt to Trinidad and Tobago.

Recently, the United Bank of Trinidad and Tobago successfully negotiated the settlement of a debt owed by IBM World Corporation, Trinidad Ltd. to its parent company IBM, New York. Citicorp, New York, along with its subsidiary United Bank, located a buyer in Japan (a new market) for products from the Iron and Steel Company of Trinidad and

Tobago (ISCOTT). The foreign exchange earnings from ISCOTT's products were used to settle the debt.

In 1985, with government's acquisition from Tesoro Petroleum Corporation of 49.9 per cent of shares in Trinidad Tesoro Petroleum Company Limited, a purchase agreement of 3.23 million barrels of residual fuel oil to be delivered to T.P.C. over an eighteen month period was agreed upon. A similar arrangement was concluded with British Petroleum (BP) and Shell.

In a recent press statement, a senior government official indicated that Trinidad and Tobago's experience in countertrade was limited. He added, however, that Government hoped to devise a specific regime on the trade soon. He made mention of a study on countertrade currently underway involving several ministries and agencies. He noted that, in due course, a programme will be issued to assist in the development of countertrade arrangements in order to meet some of the country's specific problems.

CHAPTER V

A REGIONAL FACILITY FOR COUNTERTRADE

This last chapter examines the arguments for and against a regional countertrade facility. Before these arguments are made, a brief look will be made at two proposed countertrade facilities - one in Singapore and the other in Miami, Florida.

The Singapore Trade and Development Board set up a Countertrade Services Unit in 1986 to promote Singapore as a countertrade service centre. A feasibility study for an international currency and barter exchange has been completed. The aim of setting up the center is to boost trade which has been stagnant as a result of lack of credit by third world countries. Other reasons for proposing the facility are that it will create a new trade finance mechanism, provide an international market for soft currencies and enhance the marketing of third world products.³⁴

The Singapore Trade and Development Board has given incentives to eight international companies to use the services of the countertrade services unit. Included in the package is a tax holiday for 5 years for any shipping or financial transactions conducted through Singapore. In spite of the generous arrangements offered by Singapore, countertrade in East Asia has not shown the kinds of growth prospects it once did. Indonesia, which by far has had the most developed countertrade institutions and regulations, has cut imports severely in order to improve its balance of payments. Since 1986, official Indonesian thinking has been more favourable towards "soft financing" than countertrade. In March 1988, the Government abolished its purchasing committee and countertrade was left to the discretion of individual ministries.

Other countries in South East and South Asia such as Malaysia, Taiwan, India and Pakistan have shown great promises for countertrade. A number of the major trading houses such as BHP Countertrade Pte of Australia, Phillip Brothers of New York and Centro Bank of Vienna, Austria are using the Singapore facility. Since coming into operation in May 1987, BHP Countertrade Pte has carried out two countertrade deals for Malaysia, trading raw steel in return for steel products through Singapore. The countertrade grouping is also selling oil, steel and coal and other minerals into Eastern Europe and taking chemical products, steel alloys and other steel products in return. As a pioneer company in Singapore,

³⁴ Finance and Development, IMF, June 1987

business has been brisk for BHP Countertrade Pte. The company hopes to earn US \$7 million a year from its countertrade operations.³⁵

The other facility that reference was earlier made to is the International Countertrade and Currency Exchange facility in Miami, Florida, U.S.A. This facility was authorised by Florida State legislation in 1984. The institutional arrangements were completed and approved in 1987 and the facility was expected to start business in late 1988. The facility was established with a view to providing service for developing countries with severe debt burdens. The facility will provide short term financing to service the exports of goods and spare parts to developing countries.

The I.C.C.E. hopes to have a wide developing country membership, together with a number of North American firms with established distribution outlets in hard currency markets. Also the facility promises to operate an evidence account system which would ensure that developing country export earnings generated by the exchange will be exclusively reserved to finance exports to developing countries.

As with the Singapore facility, the I.C.C.E will operate a soft currency pool which will be used to facilitate selective soft and hard currency clearing transactions among the exchange's developing country members. The "pool" will also have U.S. dollar denominated debt paper which will be used to support debt/equity or debt/commodity swaps for both members and non-members alike. The underlying factor in all this is to foster trade in the North American - Latin American/Caribbean region. According to the latest available information, the Miami facility is still being capitalized. Discussions are presently going on between the Exchange and the City of Miami regarding start-up operations.

Turning now to the central issue of this final chapter, it would be useful to review the arguments in favour of a regional facility and then examine those against.

The most convincing reason for a regional countertrade facility is that it would help promote intra-regional trade. This trade has been stagnant for some years, at the beginning of the 1980's, as Caribbean economies experienced declining growth rates, high unemployment levels and double-digit inflation. Export markets dried up as demand for Caribbean goods fell, particularly in the metropolitan countries. Balance of payments problems ensued and it became necessary for structural adjustment measures to be adopted in some countries. Economic problems in Trinidad and Tobago further compounded the region's difficulties. Given the above economic problems, many countries have begun to consider

³⁵ Trade Finance, Euromoney Publications, October 1987, No. 54

countertrade as a trade policy option. A regional facility, they feel, would allow for the exchange of goods and services among countries in the region.

Another argument is that a regional countertrade facility would permit trade to take place even at times when foreign exchange problems are severe. Countries with large resource endowments would be able to go to the facility for deals to be struck with both Caricom and non-Caricom countries. The facility would operate like a clearing house in much the same way as the C.M.C.F. operated a payments clearing system.

A regional facility would bring about closer links between importers and exporters in the region. Manufacturers associations and chambers of commerce would use the facility as an exchange, providing valuable trade and business information that their counterparts in the wider Caribbean region could use. The facility would disseminate information on deals, legislation, guidelines or policy directives on countertrade. It could also publish information on products eligible for countertrade.

Any facility set up in the region for countertrade would enhance the region's position as a major trading area. Multilateral firms, trading houses and countertrade specialist would prefer to deal with one major facility in the region on countertrade rather than have to deal with several agencies and departments of governments. The facility itself would ensure that competitive deals are not separately negotiated, much to the detriment of individual Caribbean countries.

The facility will bring together the various countries in the Caribbean, both Caricom and non-Caricom. This wider Caribbean base would be used to penetrate extra regional markets especially those in North America and Europe. It will also be used to further enhance Caribbean trade links with Latin America, Asia and Africa, particularly with countries in those regions that engage in countertrade. The expansion into North America and Europe will provide a stimulus to North/South trade and that into the third world will contribute to the development of economic co-operation at the South/South level.

For the arguments against a regional facility, it is essential to look at the question of financing such a facility. Creating an institution similar to the Singapore or Miami facility could no doubt be costly. Member states in the region have been going through difficult economic times. Their existing obligations to international and regional organisations presently consume significant budgetary resources. No single Caribbean government is economically strong enough to shoulder the financing responsibility of a regional facility in a manner that Trinidad and Tobago did under the old C.M.C.F.

Closely linked to the question of costs is the administrative difficulty of co-ordinating different countertrade agencies or departments in all the Caribbean countries, Caricom as well as non-Caricom. Wherever the facility is located, it would have to have good communications links with all countertrade departments or agencies in the various countries. Also, such a regional facility would have to have control over the physical resources that have to be traded. Through its local agencies, the facility would have to have ceded to it authority to decide on transportation, storage, facilitation, customs and excise matters. If the facility only provides a medium for countertrade to take place, then such factors would not arise. However, the authority of whoever is to manage the facility would have to be clearly defined.

Setting up a pure countertrade facility without any arrangements for a currency exchange would not be practical. As has been presented in the main body of this report, there are forms of countertrade that require the establishment of financial arrangements. The Caribbean is, in the main, a soft currency region and some clearing house scheme would have to be worked out to permit the settling of accounts. In reality, what would have to be set up would be an expanded C.M.C.F. that would incorporate non-Caricom members. Given the diverse financial structures and the growing external debt of countries in the region, there is little possibility of this happening in the near future.

A final argument against setting up a regional facility is that given the cyclical nature of the countertrade business, there is no economic justification for a structure to be established at a time when there is some doubt as to the long term viability of countertrade. Trade magazines and journals are certainly not conclusive about the profitability of countertrade. It is not common place to find serious recommendations for governments to pursue countertrade. Care has always been taken in the economic literature on the subject and in official government publications to give advisory opinions. A quote from a publication, Countertrade, issued by the U.K. Department of Trade and Industry in July 1985 would illustrate this:

"Even at its simplest, countertrade can be a complex, expensive and uncertain mode of trading. It is fraught with pitfalls. In an ideal market, it would not arise. It is, however, growing, fast becoming a fact of international trade and cannot be ignored. Exporters need not be deterred by countertrade, but they must be prepared. With careful and imaginative planning, some exporters have been able to turn this undesirable necessity to advantage."

The report concludes the official U.K. Government position as follows:

"The Government recognises, however, that there are situations and markets in which accepting an element of countertrade can be the only way of securing export orders. It is a matter for the commercial judgement of firms whether the costs and risks involved are merited, case by case, and the Government has no wish to discourage firms from exercising and acting upon their market judgements. Whilst the Government offers advice, information and general guidance to exporters, it is in general not prepared to become involved in particular countertrade negotiations or transactions."

The above quotation is not necessarily applicable to all Governments. The essence of it is that it points to the risks involved in countertrade, acknowledges that the trade is a fact of international economic life and recognises the benefits that could be derived from it - a fair and reasonable conclusion.

Annex I9. JAMAICA: AGRICULTURAL COMMODITIES FOR BAUXITE
BARTER AGREEMENT

This Agreement is hereby entered into this 25th day of February 1982, by and between the Government of Jamaica represented by the Bauxite and Alumina Trading Company Ltd. (hereinafter called BATCO) and the Government of the United States represented by the Commodity Credit Corporation, an agency and instrumentality of the United States within the Department of Agriculture (hereinafter called the "CCC").

WITNESSETH:

Whereas, BATCO desires to enter into a barter arrangement with CCC under which BATCO agrees to sell to CCC 400,000 Long Dry Tons (LDT) of metal grade bauxite;

Whereas, CCC desires to enter into a barter arrangement with BATCO under which CCC agrees to sell to BATCO 7,238 metric tons of nonfat dry milk and 1,905 metric tons of anhydrous milkfat;

Now therefore, CCC and BATCO agree as follows:

PART A

BAUXITE PROVISIONS

ARTICLE 1: PURPOSE

This Agreement represents a portion of a total transaction between the Government of the United States of America and the Government of Jamaica for acquisition of 1,600,000 Long Dry Tons (LDT) of metal grade bauxite for the National Defense Stockpile. The principal purpose of this Agreement is to define the terms and conditions under which BATCO will sell 400,000 LDT of metal grade bauxite to CCC and the terms and conditions under which CCC will sell 7,238 metric tons of nonfat dry milk and 1,905 metric tons of anhydrous milkfat to BATCO. The balance of the bauxite (1,200,000 LDT) will be covered in an agreement between the United States General Services Administration (GSA) and BATCO, which agreement will also contain provisions covering the transportation costs for the 400,000 LDT of bauxite covered by this Agreement. The total amount of bauxite to be acquired by CCC and GSA is 1.6 million tons, all of which is to be delivered prior to September 30, 1982.

ARTICLE II: MATERIAL

2.1 Material

BATCO will furnish the management, labour, facilities, materials, tools and equipment and do all things necessary and/or incidental to performance of the work described below:

- Item 1 - Provide 400,000 LDT of Grade 2 metal grade bauxite conforming to the chemical and physical requirements of National Stockpile Purchase Specification P-5b-R, dated December 15, 1981 (referred to herein as "Specification"), except that in Article II, Paragraph A, the following is deleted:

Ferric Oxide	Max:	20.0
Titanium Dioxide	Max:	2.5

and the following is substituted:

Ferric Oxide	Max:	22.0
Titanium Dioxide	Max:	3.0

and Article II, Paragraph B, is deleted in its entirety.

- Item 2 - Deliver the material listed in Item 1 to the U.S. Government Storage Track No. 10 which is located on the Reynolds Metals Company facilities, Gregory, Texas.

- Item 3 - Build, trim and shape the pile of material delivered under Item 2 to conform to the following requirements:

- a. Toes of the piles shall not extend beyond the prepared pad on Storage Track No. 10.
- b. Outside slope of the pile shall average 30 degrees, but must not exceed 35 degrees.
- c. The stockpile shall be built in lifts of a maximum of three feet per lift. The haul trucks will be dumped and dumped material graded with a dozer to form the lift. This method should achieve a density of at least 81 pounds per cubic feet.
- d. A berm four feet high shall be provided around the top edge. The bauxite used for forming this berm shall be moistened, compacted and formed up on the inside face to a maximum angle of repose.

- Item 4 - Provide a sampling platform located adjacent to the scale used for weighing the bauxite. The platform shall include a ramp or catwalk in order to provide the sampler access to the bauxite in the trucks. The sample shall be taken after the truck gross weight is recorded and before the material is unloaded. The platform and access ramp shall be constructed so as to accommodate various size trucks, and still provide safety for the sampler while being suitable for the purpose of sampling. A drawing of the platform shall be supplied to GSA for comment prior to construction. The platform shall be operational prior to commencement of deliveries.
- Item 5 - Refurnish and maintain existing weighing station adjacent to the storage site. The scales shall be certified by a recognized scale company or State Weights and Measures Authority, at least every three (3) months or after major repairs to the scale.

ARTICLE III: DELIVERY OF THE MATERIAL

- .1 Schedule
Deliveries of the material shall begin on or about July 15, 1982 and be completed by September 30, 1982. A minimum of 150,000 LDTs to a maximum of 250,000 LDTs shall be delivered within each 30-day period beginning with the first delivery date.
- 3.2 Destination
Material will be delivered to U.S. Government Storage Track No. 10, at Reynolds Metals Company facilities, Gregory, Texas.
- 3.3 Notice
BATCO shall notify CCC, or its authorized representative (for Part A of this Agreement, the authorized representative shall be the General Services Administration, hereinafter called "GSA"), in writing not less than ten (10) working days prior to commencement of initial delivery. GSA shall be notified in writing five days prior to any foreseeable and subsequent reinstatement of delivery.

ARTICLE IV: INSPECTION, SAMPLING, ANALYSIS, WEIGHING AND ACCEPTANCE.

- 4.1 Lot Size
For the purpose of weighing, inspection, sampling, and analysis, a lot shall constitute 10,000 Long Wet Tons consecutively delivered.

4.2 Inspection

Inspection of the bauxite shall be performed or witnessed by a GSA representative at Gregory, Texas.

4.3 Sampling and Analysis

GSA will sample the bauxite at Gregory, Texas. Sampling and sample preparation shall be at the direction and expense of GSA. Sampling shall be accomplished as close as possible to the time of weighing of the bauxite at Gregory, Texas. Representative samples shall be taken from each lot. Samples taken shall be for the purpose of determining conformance of the lot to the requirements of the Specification. Procedures

and methodology for the laboratory testing shall be those described in Exhibit A-2.

4.4 Moisture Content Determination

One portion of the sample taken for moisture determination will be delivered to Reynolds Metals Company. One or two portions of the GSA sample shall be used for moisture content determination. The GSA sample shall be dried at a temperature of 140 degrees centigrade for not less than eight hours or to constant weight. The loss of weight shall be regarded as moisture. The percentage of moisture in the sample shall be subtracted from the net wet weight of the lot as determined in Paragraph 4.6 below. and the resulting dry weight shall be used as the basis for payment. The moisture determination of the GSA analysis shall be final on all deliveries and not subject to umpire.

4.5 Umpire Laboratory Procedure

BATCO may request that a sample be sent to umpire for chemical analysis of any compound failing GSA test analysis. The umpire laboratory shall be mutually acceptable to both BATCO and GSA. The average of the umpire analysis results and the results of either GSA or BATCO analysis, whichever is closer to the umpire results, shall be final and govern. For individual lots not in conformance with the Specification, only compounds that failed to meet the specifications requirements may be analyzed by the umpire. The cost of the umpire will be for the account of the party whose analysis is the farthest from umpire's results. If both are of equal difference from the umpire, the cost will be shared equally.

4.6 Weighing

Weighing shall be performed by an official weighmaster mutually acceptable to GSA and BATCO at the Reynolds truck scales located as close as possible to the storage site. Weighing shall be at the expense of GSA. Every truck shall be gross weighed prior to delivery of the bauxite to the storage area. The tare weights of the trucks shall be established periodically as directed by GSA. A complete

record of weights by scale weight tickets shall be made for each vehicle for each load hauled. Weight certificates listing truck weight data in tabular form shall be issued by the weighmaster. When a completed lot of material has been weighed, a certified weight certificate shall be signed by the weighmaster and attested to by the GSA representative.

4.7 Acceptance

4.7.1 If the analysis of the GSA sample indicates that the bauxite complies with the requirements of the Specification when considered on a weighted average basis with all previous deliveries, the lot shall be accepted.

4.7.2 If any lot fails to comply with the requirements of the Specification when considered on a weighted average basis with all previous deliveries, acceptance shall not be made for such lot until (by subsequent lots) the weighted average of all lots delivered shall comply with the requirements of the Specification.

4.7.3. If after 80 percent of the material has been delivered to the site, the weighted average analysis as defined in 4.7.1 does not comply with the Specification, all further deliveries shall cease until BATCO can show that the remaining 20 percent of the material will be of such quality as to bring the weighted average analysis of the site into compliance with the Specification.

4.7.4 The Notice of Inspection, GSA Form 308-A, shall be issued by GSA after receipt of reports on analysis, weighing, and physical requirements on one or more lots. Acceptance or notice of noncompliance of the material tendered shall be made by GSA on Form 308-A.

ARTICLE V: CONSIDERATION AND PAYMENT FOR BAUXITE

5.1 Unit Price and Amount

BATCO will be paid as follows for the bauxite delivered to CCC.

<u>Description</u>	<u>Quality</u>	<u>Unit Price</u>	<u>Total Value</u>
Bauxite	400,000 LDT	US\$ 32.50 Per LDT	US\$ 13,000.000

5.2 Transportation, Handling and Delivery to the Pile

BATCO will be paid by GSA for the transportation, handling and delivery to the pile of the bauxite purchased by CCC at the

rates provided in Article VI, Paragraph 6.2 and Article X of the Memorandum of Agreement Between the Government of the United States and the Government of Jamaica for the Acquisition of Bauxite.

5.3 Payment

Payment for the value of the bauxite delivered to CCC, excluding the cost of transportation, handling and delivery to the pile, as provided in Paragraph 5.2, shall be paid for by CCC by delivery to BATCO of an equivalent value of agricultural commodities as specified in Articles VII and VIII.

5.4 Barter Account

Upon delivery to an acceptance of the bauxite by GSA, the value of the bauxite accepted shall be credited to a "barter account" for BATCO. The value of each lot will be credited to the account upon determination of acceptance by GSA, as demonstrated by the issuance of a GSA Form 308-A. The "barter account" will be liquidated as specified in Article XII, by applying to the account the value of the agricultural commodities delivered to BATCO in accordance with Part B of this Agreement.

5.5 Invoices

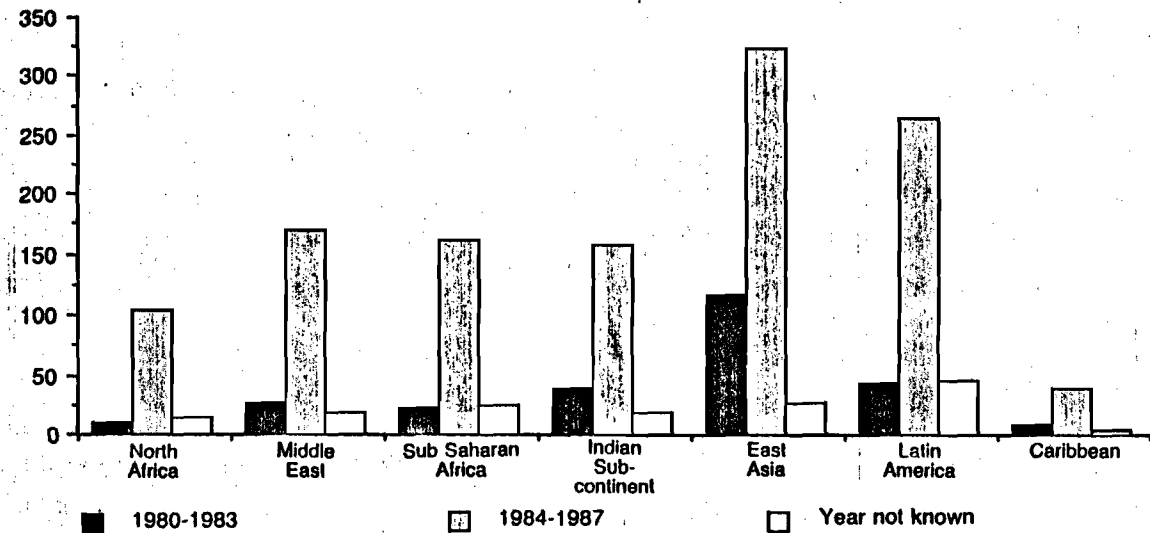
5.5.1 An invoice shall be submitted weekly by BATCO to GSA covering the quantity of material to be delivered in the following week. The format shall be one acceptable to GSA.

5.5.2 Fixed Price

The unit price of the bauxite as provided in paragraph 5.1 is inclusive of all costs of performance, including costs and cost escalations not known or not contemplated at the time this Agreement was signed, and includes (without in any way limiting thereto) all costs and costs escalations related to material, labour, transportation to the vessel, and testing, as well as Jamaican customs, duties, taxes, assessments, licenses and permits. The unit price of bauxite covered by this Agreement is firm and fixed and not subject to revision.

Regional summary of reported third world countertrade deals (1980-1987)

(Number of deals by period in which deal signed)



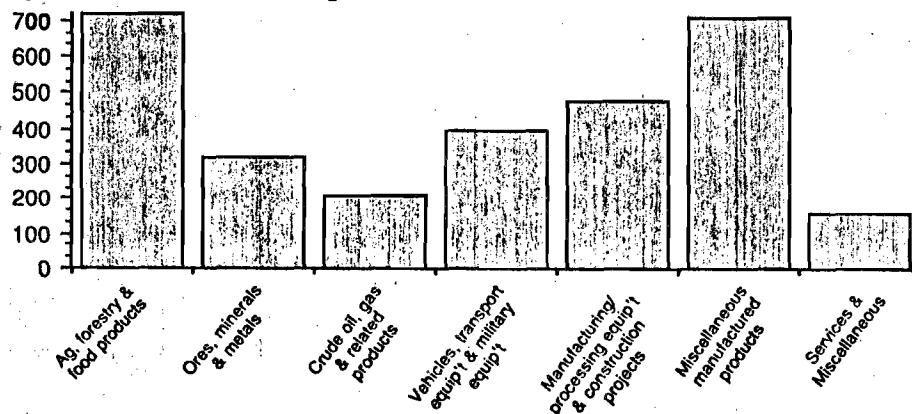
NOTE⁽¹⁾ Total of table does not sum to the total number of deals because South/South deals between developing countries in different regions are counted in each region. However, deals between two developing countries in the same region are counted only once. Therefore, the total figure for each region represents the total number of deals that region has been involved in.

Source: Produce Studies

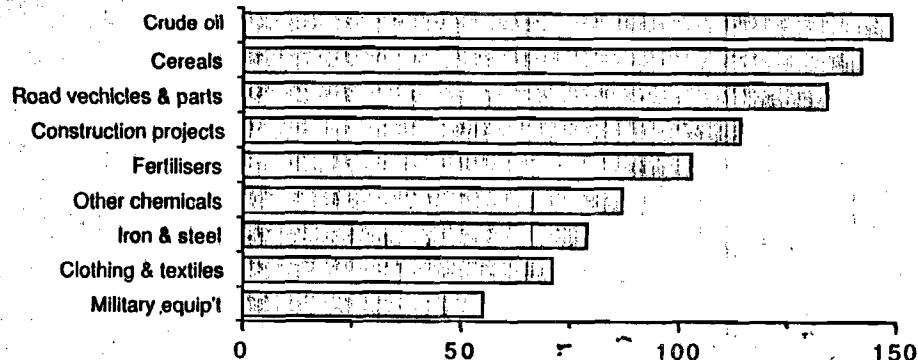
Imports to Developing Countries in 1,157 Countertrade Deals, 1980-1987

(Number of product observations)

Summary by Product Group



Leading Product Sub-Groups

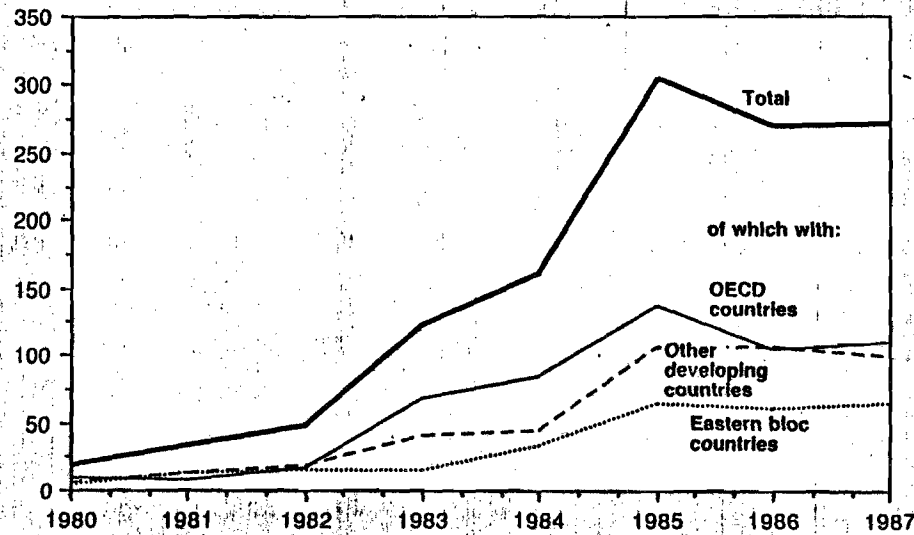


Other leading product sub-groups include electricity supply equip't (48), paper and products (47), timber and plywood (45), other ag. machinery (excl. tractors) (44), railway equip't (43), technology transfer and training (43), pharmaceuticals (41), cotton (40).

Source: Produce Studies

Reported countertrade deals involving developing countries, (by partner, 1980-1987)

(Number of deals by year deal signed)

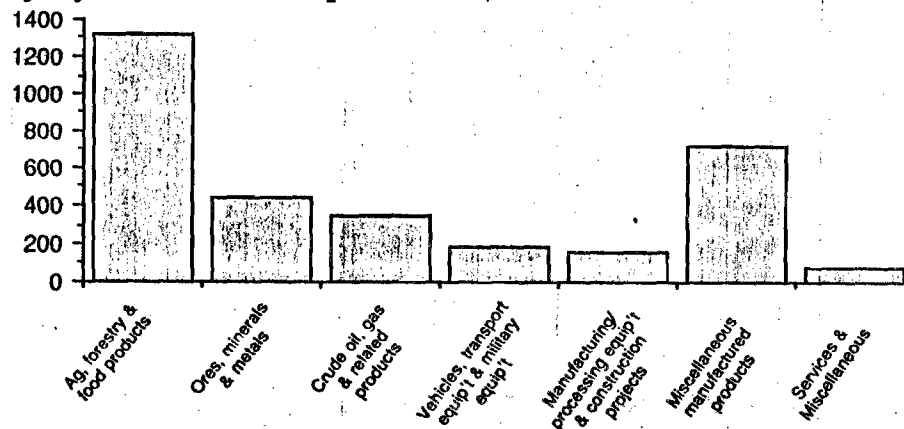


Source: Produce Studies

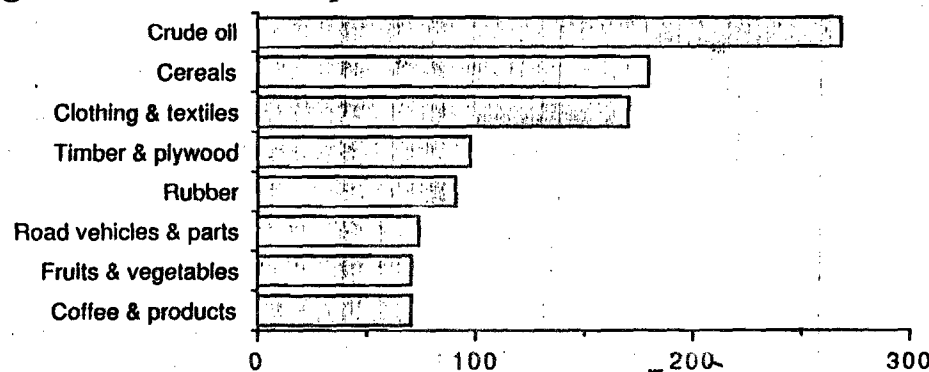
Exports from Developing Countries in 1,122 Countertrade Deals, 1980-1987

(Number of product observations)

Summary by Product Group



Leading Product Sub-Groups



Other leading product sub-groups include cotton (69), vegetable oils (63), iron & steel (59), cocoa & products (54), tea (52), other chemicals (excl. ag. chemicals) (52), tobacco (51), sugar & products (50), bauxite/aluminium (46), fertilisers (45), coal (43), iron ore (41)

Source: Produce Studies

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