COUNTERTRADE POLICIES AND PROSPECT FOR COOPERATION AMONG ISLAMIC COUNTRIES

UNION OF THE CHAMBERS OF COMMERCE,
INDUSTRY, MARITIME TRADE AND
COMMODITY EXCHANGES OF TURKEY

COUNTERTRADE POLICIES
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ISLAMIC COUNTRIES

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F O R E W O R D

Ali COŞKUN
President of TOBB

The purpose of this research was to overview some of the recent developments in the areas of theory, policy and practies of Countertrade (CT) and examine the role of different forms of CT mechanisms in international tarde during the 1980-1987 period with special emphasis on the experience of the 16 major selected Organization of the Islamic Conference (OIC) member countries and finally to explore the implications that those arrangements may have to further economic cooperation among OIC members.

In this study Countertrade is defined as a modern version of barter trade. Mostly, it appears as a quasi-barter and most of the CT settlements involve cash payments and any type of CT requires a conditional link between exports and imports.

This research shows that CT as a commercial practice has gained a wider acceptance during the 1980s. The lack of foreign exchange, the debt crisis and inadequate marketing capabilities are the main reasons motivating most of the developing countries to impose CT arrangements. This study also indicates that most of the CT applying member countries do not have a clear and consistent policy formulation either in the form of legislation or guidelines concerning this complex form of managed trade. In order to reduce bureacratic formalities and delays to a minimum level, each Muslim country has to set up some sort of CT coordinating body which is suitable to the economic structure of the country.

Due to heavy goverment involvement in CT activities, Muslim countries can easily set up a regional CT clearing house, and an information center which can collect and distribute information on CT activities and the type of CT goods, *available in the member countries. To this end, Islamic Development Bank (IDB) may organize periodic CT opportunity exploring meetings among the authorized representatives from the concerned member countries in order to find out the best bidders among them.*

Prof. Dr. Emin Çarıkcı concluded that countertrading may prove more suitable device than taditional trade policy instruments for the effective reorientation of trade flows among OIC members. But it can not resolve the problem of incompetitiveness of these countries in the long run. Thus, CT can not be considered as a substitute for traditional trade rather it can be so regarded as an additional trading arrangement to complement existing trading practices.

I would like to express my deep gratitute to the author of this research, Prof. Dr. Emin Çarıkcı, a faculty member at Hacettepe University Ankara, because, his discussion brings together the best of theory and policy on the recently developing subject of countertrade in international trade. I believe that this book will provide an important input for other scholars businessmen and policy makers on the subject.

Finally, I would like to extend my thanks to those peoples who have devoted their endless time and energy for the publication of this book which might help to contibute further economic cooperation among Islamic countries.

Ankara December 1989

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ABBREVIATIONS

ASTRO	: The Association of State Trading Organisations of Developing Countries.
CT	: Countertrade
CMEA	: The European Council for Mutual Economic Assistance Countries (Eastern European Common Market)
GATT	: General Agreement on Tariff and Trade
IBRD	: World Bank
ICPE	: The International Center for Public Enterprise of Developing Countries
IDB	: Islamic Development Bank
IMF	: International Monetary Fund
IRTI	: Islamic Research and Training Institute of IDB
ITC	: International Trade Centre UNCTAD/GATT
OECD	: Organization for Economic Cooperation and Development
OIC	: Organization of the Islamic Conference
OPEC	: Organization of Petroleum Exporting Countries
STOs	: State Trading Organizations
$	: U.S. Dollar
TOBB	: Union of the Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey
UN	: United Nations
UNCTAD	: UN Conference on Trade and Development
UNIDO	: UN Industrial Development Organization

LIST OF OIC MEMBER COUNTRIES

1. People's Democratic Republic of Algeria.
2. State of Bahrain.
3. People's Republic of Bangladesh.
4. People's Republic of Benin.
5. Sultanate of Brunei Darussalam.
6. Republic of Burkina Faso.
7. United Republic of Cameroon.
8. Republic of Chad.
9. Federal and Islamic Republic of the Comoros.
10. Republic of Djibuti.
11. Arab Republic of Egypt.
12. Republic of Gabon.
13. Republic of Gambia.
14. Republic of Guinea.
15. Republic of Guinea-Bissau.
16. Republic of Indonesia.
17. Islamic Republic of Iran.
18. Republic of Iraq.
19. Socialist People's Libyan Arab Jamahiriye.
20. The Hashemite Kingdom of Jordan.
21. State of Kuwait.
22. Republic of Lebanon.
23. Malaysia.
24. Republic of Maldives.
25. Republic of Mali.
26. Islamic Republic of Mauritania.

27. Kingdom of Morocco.
28. Republic of Niger.
29. Federal Republic of Nigeria.
30. Sultanate of Oman.
31. Islamic Republic of Pakistan.
32. Palestine.
33. State of Qatar.
34. Kingdom of Saudi Arabia.
35. Republic of Sierra Leone.
37. Somali Democratic Republic.
38. Democratic Republic of Sudan.
39. Syrian Arab Republic.
40. Republic of Tunisia.
41. Republic of Turkey.
42. Republic of Uganda.
43. United Arab Emirates.
44. Yemen Arab Republic.
45. People's Democratic Republic of Yemen.

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The author wishes to express his sincere gratitude to Dr. H. Foudeh, Chief Librarian of the IDB, for making available additional updated information on the subject.

The author is also very thankful to IRTI/IDB which made a very generous financial contribution for the collection of the most recent materials on the subject.

The author is deeply grateful to Mr. Ali Coşkun, the President of TOBB, who offered his help for the publication of this book, thereby, finally achieving his aim after more than one year of research on this topic. Otherwise, this study would not have been available to those individuals such as concerned businessmen, public officials and academicians who are involved in the promotion of international trade.

Needless to say, the ideas and the concluscion expressed in this book or existing faults and shortcomings are entirely the outhor's responsibility and in no way reflect the views of the IRTI/IDB or TOBB.

ANKARA October 1989

INTRODUCTION

INTRODUCTION

During the last decade, most of the LDCs have been severely hit by first and second oil shocks, historically high level of real interest rates, the longest recession of 1980-83 since 1930's and more non-traiff trade barriers in the industrial world. In the early 1980's, industrial lobbies of the West have moved from the support of "free" trade to "fair" trade, and interest has centered on how to prevent competitiveness of newly industrialized countries especially in labour intensive manufactured goods'trade. Whenever industrial lobbies of the developed countries believe that a foreign competitor is being unfairly supported by its government, in return they will press for equivalent subsidies, import regulations or some other non-tariff form of compensation. The danger with "fair" trade is that due to unavailability of clearly defined criteria for what is "fair" and what is "unfair", it is used to justify neo-protectionist policies in the Western world.

In response to the recent developments in the industrialised countries, developing countries have also increased their existing non-tariff barriers not only toward developed countries, but also among themselves. As a result of intensifications of non-tariff trade barriers in both developed and developing countries, presently the percentage of managed trade probably reached around 50 percent of total world trade (J.Hein-1983, pp. 33-44; and J.Tumlir, et. al., 1984, p.14). Thus, due to recent increase in share of managed trade which is not determined entirely by market forces in the world trade, importance of bilateral agreements, countertrade and state trading practices have become major devices for the increase in developing countries' international trade. Today, countertrade (CT) covers at least one quater of world trade, even though estimates vary with respect to its different definitions. As of June 1986, individual companies are demanding CT in 120 countries. Out of this total, 25 of them are Muslim countries (for further information see Appendix-I of this research).

CT arrangements have taken a variety of forms, namely barter, compensation, counterpurchase, buy-back, advance purchases, and offset deals. Basically, they are modified modern version of classical barter or quasi-barter arrangements between national and foreign traders under which the exporter is obliged to accept specified goods or services from the importer.

For many developing countries, CT is a response to the following unfavourable changes in the international econamy during the 1980's. In this decade, firstly, net capital inflow to the debtor nations are drying up and their debt servicing rations are aggrevating and this situation is not expected to change in the near future. Secondly, wild fluctuations in major convertible currencies reduce the usefulness of market prices for valuing goods. Thirdly, terms of trades of most developing countries continue to deteriorate. Fourthly, due to the global crisis, many governments have increased their intervention in trade and capital markets which resulted in growing protectionism and the corresponding decline of multilateralism and thereby the overall slowdown in trade growth. Increased competition on global basis in many products, excess capacity in certain commadities, rising competition for technology are also contributed to the recent rapid increase in CT arrangements.

Due to all of these new developments in teh global economy, for most of the countries, including developed ones, CT became a pragmatic respones to newly institutionalized ways of doing business, and this trend is expected to continue in the near future.

Until 1980's, CT is used rarely by developed and developing countries. Whenever it is used it has been mostly allowed with Eastern European countries as an alternative method for short-term traditional trade financing. This form of trade has spread steadily around the world in 1980's in response to the above mentioned unfavourable changesi in teh global economy during the last decade.

SCOPE AND PURPOSE

During the recent years, as a result of the acclerated increase in CT transactions in the world trade, there is a growing interest on the study of the theoretical and policy issues of countertrade. However, there is so far no serious study and publication on the subject from the Muslim countries' standpoint. This study can be considred as the first research work examining CT from the OIC member countries' point of view.

The purpose of this research study is to overview some of the recent developments in the areas of theory, policy and practices of CT and examine the role of different forms of CT mechanisms in international trade during the 1980-87 period with special emphasis on the experiences of teh 16 major selected OIC member countries, and finally to explore the implications that those arrangements may have to further economic cooperation among OIC members. However, the study concentrates mainly on CT policies and practices in the selected countries rather than on theoretical issues.

The countries appliying CT hve realized that foreign loans for their needed imports are no longer a remedy for structural foreign exchange shortages and export weaknesses. If the penetration of foreign markets with their export products cannot be achieved by their own efforts and means, it has to be enforced on foreign business partners through different forms of CT mechanisms.

Foreign exchange shortage is perhaps the main reason for the use of CT increasingly by non-oil exporting developing countries. However, after 1982, depression in the world oil market has also obliged many oil exporting countries to look for opportunities to trade their crude oil surplus in payment to foreign contractors and suppliers of agricultural and idustrial products.

In 1980's, CT is becoming a short term and medium term method for trade promotion as well as a mechanism to meet long-term economic development needs of third word countries. In t his decade, developing countries are increasingly using different form of government-mandated CT mechanisms in order to purchase not only aid and advanced equipment, but also technolgy and the managerial skills needed to facilitate major development projects, to develop natural reources or to construct infrastructure.

METHOD AND PROBLEMS

Developing countries with hard currency problems often used buying power of their state trading organizations (STOs) for the promotion of their especially non-traditional exports through CT deals. Recently, some Muslim countries such as Indonesia and Malaysia had also established general official and specific policies to conduct CT, others had implemented or were about to introduce CT guidelines. But majority of them have been implementig it unofficially on a case-by-case basis. Many important CT deals have been signed in Muslim world, but the existence of deals is often kept secret due to open opposition of the U.S. Government, IMF and GATT to that type of mandated trade.

Currently, some CT case exâmples are available for all nations, but, at the country level, the true magnitude of CT deals is not known and cannot be estimated correctly because such deals are most often carried on by individual firms which often try to hide information on such arrangements to avoid government regulations. Whenever governments engage in such deals, trade data are not included in official statistics due to, firstly, the period of CT arrangements extends over many years so that estimation of the value of annual trade flows is very difficult, or, secondly opposition of international organizations such as GATT and IMF to this type of mandated trade.

In spite of these limitations, on the basis of case studies, this study intends to contribute to thoughts on this subject which has started developing very recently. However, the reader should not expect to find a fully complete assessment of the role of CT on economic cooperation in this study. The scarcity of data and availability of information are the main constraints for sound evaluation.

In the United Nation (UN) and other international organizations the importance of CT in foreign trade has been recognized only around mid-1980's. In 1984, experts of the UN Conference on Trade and Development (UNCTAD) completed a few research reports on CT ewperiences of some Latin American countries. In June 1985, International Association of State Trading Organisations of Developing Countries (ASTRO), based in Yugoslavia, organized first international workshop on countertrade. In 1985, ASTRO has established a comprehensive reference service on CT with regular updaters for all nations. In addition to a few available publications in 1985-87, this study mostly has depended on published and unpublished materials of ASTRO and UNCTAD on the subject during the 1984-1987 period.

With the above commitments, reservations and the limitations, the concent of this research is finalized in the following manner:

Part I provides definition, classification, historical background, varients and magnitude of CT. Specifically, it includes also different forms of CT mechanisms, namely classical barter, compensation, counterpurchase arrangements, buy-back agreements, advance purchases, offset deals and their definitions.

Part II investigates present CT experiences of 16 selected OIC member countries namely, Algeria, Bangladesh, Egypt, Indonesia, Iran, Iraq, Jordan, Libya, Malaysia, Morocco, Nigeria, Pakistan, Saudi Arabia, Syria, Tunisia and Turkey. In the sections on each of the countries, CT policies and practices, export goods and services available in CT are sutudied. In addition, addresses of the potential countertrade contacts and major CT deals in 1984-87 period are included for each country. In Part II,in addition to the recent history of each selected Muslim country in CT, another purpose is that the study hopes to extract from ech nation's experience those common features of CT, and especially, innovations of individual cases that might prove beneficial to further development of CT in all OIC members.

Part III is devoted to the examination of economic motivations and organizations of CT. The first section deals with the qualitative evaliation of the rationale for and constraints against CT mechanisms. The role of public sector and trading houses in the management of CT transactions, the views of international organizations such as GATT and IMF on the subject, and future prospect of CT deals are the subject of the second section. The last section of Part III explores the prospect for economic cooperation through CT mechanisms among Middle Eastern countries and South East and Far Eastern Muslim countries problems of countertrading in the OIC members and recommendations.

Finally, Part IV of this research includes summary, the future prospects of CT in the world and among OIC members, conclusions and policy proposals for the member countries of OIC.

PART-I

CLASSIFICATION, HISTORICAL BACKGROUND AND GLOBAL VALUE OF CODUNTERTRADE TRANSACTIONS

PART-I

CLASSIFICATION, HISTORICAL BACKGROUND AND GLOBAL VALUE OF COUNTERTRADE TRANSACTIONS

1. Range of Special Transactions, Definition and Historical Background of Countertrade.

A. Range of Special Transactions

Recently, special transactions are classified by ASTRO in accordance with their importance for world trade. The following foreign trade methods are generally referred to as "special transactions":[1]

Countertrade
- -Barter
- -Compensation
- -Counterpurchase
- -Buy-back
- -Offset deals

Advance purchases
Forfeiting
Switch
Leasing

This study will be devoted only to the analysis of different forms of CT transactions including advance purchases. Because, in a recent UNCTAD

1 ASTRO, Complementary Manual of Comprehensive Reference Service on Countertrade, Valume Manual, (Ljubljana-Yugoslavia, ASTRO, 1985), p.16-17.

report which is relesed in June 1986 advance purchases are also included as an another form of countertrade[2].

B. Definition and Classification of Countertrade

The term "countretrade" which has only recently entered the literature of international trade, originated in the East-West Trade[3]. It is a modorn version of barter trade. Mostly, it appears as a quasi-barter of imports and export transactions. By definition, the term countertrade includes "all foreign trade transactions in which an exporter commits himself to take products from the importer (or importers's country) in full or partial payment off his own supply"[4]. Thus, CT is essentially a foreign trade transaction that involves conditioning or linking of exports to imports or imports to exports. The term CT may be applied to the entire linked trade obligations where the transfer of products, services and technology replaces or supplements a cash transaction. As a result, a countertrade operation is possible only if the seller of a good or service accepts in partial or full payment of goods or services from the purchasing country[5].

The most important characteristic of CT is that it is an **ad hoc**, transaction-by-transaction form of a barter or quasi-barter. Due to this characteristics, CT is more similar to the barter of medieval times than bilateral clearing or trade arrangements which arose in the beginning of 1930s between much of the European goverments. Without making this distinction one cannot elimanate the existing source of some confusion in the literature of CT[6].

2 UNCTAD, "Report of the Asian Regional Workshop on Countertrade, Kuala Lumpur, March 24-28, 1986, p.4; For information on Forfeting, Swich and leasing, see ASTRO Manual 1985, ibid ., pp.16-18.

3 G.Banks, "The Economics and Politics of Countertrade", The World Economy, (London), Vol. 6, No.2, June 1983, pp.159 & 172.

4 ASTRO Manual, op.cit. p.33.

5 Trifunovic, "Yugoslav Experience in Countertrade Contribution to Analysis of Countretrade Development", paper presented at the International Workshop on CT, Belgrade, June 25-28, 1985, pp.2 & 8; L.Welt, Countertrade (London, Euromoney Publication Limited, 1985) p. 1; J.Griffin and W. Rouse, "Countertrade as a Third World Strategy of Development", Third World Quartely, Vol. 8,k No.1, January 1986, pp. 184-185.

6 G.Banks, op.cit. , p.160; for further theoritical discussion, see R.Mirus, and B. Yeung, "Countertrade and Foreign Exchange Shorrtages: Al Preliminary Assessment" Weltrwirtschaftliches Archiv , Vol.123, No.3, 1987, pp. 535-544.

According to Mr. H. Ferenz, an UNCTAD Consultant, CT has a variety of forms[7]. There are four conventional types:

1. Classical Barter
2. Compensation
3. Counterpurchase Arrangements
4. Buy-back Arrangements

and two non-conventional forms:

1. Advance Purchase
2. Offset Deals

As can be seen from the following section in detail, any type of CT requires a conditional link between exports and imports, but this requirement is not always nececcarily attanined atl approximately equal values (for the detaliled analysis on the above see section 3).

2. Variants of Countertrade Transactions and Definitions

As it is mentioned in section 1-B of Part-I, CT assumes a variety of forms. There are four conventional types (barter, compensation, counterpurchase and buy-back) and two non-conventional forms (advance purchases and offset deals) of countertrade. This section presents a brief overview of the theoretical aspects of various CT transactions as there is sufficient theoretical literature on the subject[8].

A. Conventional Types of Countertrade:

a) Classical Barter

Barter is the oldest form off countertrade. It involves a mutual and direct exchange of goods between partners without any financial payments and barter commission. In other words, it is the bilateral exchange of goods and services of equivalent monetary value. Under such transaction, a partner can not transfer his commitment to a third party.

7 UNCTAD Report March 1986, op.cit ., p.4.

8 For further information on the subject see, R. Mirus and B. Yeung, ibid , pp.535-544; L. Welt, op.cit , pp.9-16; ASTRO Maunal 1985, op.cit , pp.33-35;L G.Banks, op.cit ., pp.160-162; J.Griffin and W. Rouse op.cit ., pp. 185-189; UNCTAD Report March 1986, op.cit ., pp.4-5; C.J. Gmur (Ed.) Trade Financing (London, Euromoney Publications, 1986), pp. 169-183; S.M. Rubin, The Business Manager's Gide to Barter, Offset and Countertrade (London, the Economist Intelligence Unit, 1986) pp.5026.

Realization of a barter transaction depends on the double coincidence of wants of the two parties, and on their ability to agree that their mutual shipments are appoximately equivalent value. Difficulties with this form of CT transaction usually begin with the valuation of goods and services to be exchanged and this councidence of above mentioned pre-requisites. Due to these difficulties, barter trade is mostly applicable to the exchange of homogenous products such as oil, arms, food and raw materials, and its is normally limited to government-to- government agreements, since qualities, prices, volumes and delivery times of certain homogenous agricultural and mineral products can be easily verified during the negotiations.

FIGURE 1. BARTER AGREEMENT[9].

Signatory Company X in Country A	—— 100% goods ——	Signatory Company Y in Country B
	—— 100% goods ——	

Pure barter is manily employed among the governments of the developing countries and their trade relations between East European countries. Genuine barter is rarely employed in industrialized countries. In order to finance vital import requirements without any monetary transfers barter agreements are made between the governments or governmental institutions on the one side, and STOs or private companies on the other. It is widely used for the direct exchange of raw materials in return for foodstuff, cereals, oil, chemicals or industrial inputs. The barter agreement on the volumes, prices, quality, delivery times and transportation charges of goods and services to be exchanged is formulated roughly in a trade protocol. Since the prices of the goods to be exchanged are mostly agreed upon in advance for a few quarter or at least for a month, a great number of barter agreements never have materialized during the rapid fluctuations of commodity market prices.

In practice, the financial settlements in the partner countries of the barter arrangements are as follows: Signatories of barter agreements in respective countries are mostly STOs or private companies which are not permitted to maintain hard-currency holdings. Exporter has to submit his shipping documents to the central bank and get credit in domestic currency of the equivalent of their foreign exchange proceeds. Importers have to deposit domestic cur-

9 The figure 1 is derived from ASTRO Manual, and L. Welt, ibid , pp. 34 and 11 respectively.

rency equivalent to the foreign exchange allocation for which they apply at the central or foreign trade bank. Under barter agreements, the exporter of country A gets paid in domestic currency from one of the respective and responsible banks for his barter exports, unrelated to whether an importer of country A has placed an import order at the same time and deposited domesticc currency to a volume covering the responsible bank's credit to the exporter's account. On the import side, similar transactions need to be completed by the importers for a barter import. He deposits domestic currency with the central or foreign trade bank and finalizes his barter import, unrelated to the activities of the exporter.

b) Compensation

Under a compensation arrangement, the seller of a product (exporter), service or technology takes full or partial payment in the form of a product. The purchase agreement is combined with the sale in a single contract. Full compensation deals are similar to classical barter arrangements with two important differences. Firstly, the partners invoice their deliveries but the invoice values are merely entered into a mutual compensation account with settlement of balance (in foreign exchange or kind) in contracted intervals. Secondly in general, the exporter transfers the purchasing commitment to a third party, who may be end-user of the product or a trading agency.

In a partial compensation arrangements, the seller of a product (exporter) would, say, agree to accept from partner (importer) 60 percent in cash and 40 percent in kind. Again, exporter has the right to transfer his purchasing commitment to a third party. Pure compensation agreements have a major disadvantage for the exporter. For, if no suitable products are available, the compensation obligation becomes an interest-free commercial credit until the existence of appropriate goods and services. Financing of a sale against compensation must be flexible since the delivery of the compensation products may be delayled.

Compensation arrangemnets are not concludedk on agovernment-to-government basis. Governmental influence on compensation is indirect throught foreign trade regimes. For example, compensation deals may be compulsory for low-priority impomrts for which no hard currency willm be allocated buy the foreign exchange authorities.

c) Counterpurchase Arrangements

Counterpurchase arrangements (also called as parallel transactions, countredelivery, reciprocal trade) links the value of exports to the value of imports ranging from 5 percent to over 100 percent of the original export order. The initial exporter must by goods and services from the importer, but often they are unrelated to the original exporter's product line.

A major feature of counterpurchase is that two separate contracts should be signed and linked together with a protocol. The first one (primary contract) is typically a standard sales contract indistinguishable from those used in normal foreign trade tansactions. The second contract (CT contract) includes the details of the obligation of the seller to make counterpurchases from the buyer. For further information about the details of the primary and secondary contracts, see Section 1.B-d in Part III.

In general, the duration of a counterpurchase obligation is between six months to three years, the price formula is accepted as the recognized international price at the time of purchasing, and type of goods might include all products manufactured locally or only certain specific products. Unlike barter, each contract is separately financed and does not involve any payment in kind. This overcomes the valuation problems found in barter and enables the original exporter to be paid on delivery of his goods and services. At the same time, the exporter is given a needed amount of time to find a suitable products for his purchase obligation. In general, such obligation is transferred by the exporter to a trading house which will dispose of (sell or transfer) the goods for a commission or discount. These discounts range from under 5 percent for disposal of easily-marketed standard goods such as oil, cement or grain and others, to as much as 25-40 percent for hard-to-market manufactured goods.

Because of mentioned advantages, counterpurchase is the most common form of countertrade, particularly in the state trading countries of Eastern Europe and with an number of highly developed Islamic countries, notably Indonesia, Iran, Iraq, Malaysia, Pakistan and Turkey. Counterpurchase deals are generally conducted between a state trading organization (the initiator in almost all case) and a private firm or a trading house. Linking of the two separate contracts in most instances, is a protocol arrangement which includes penalties for failure to carry out the counterpurchase contract.

d) Buy-back Agreements

Under a buy-back arrangement, the seller (exporter) of a plant, equipment and/or technology agrees to accept for his deliveries in exchange for payment in products extracted or manufactured with the equipment or turn-key plant he has supplied. The key rule for the turnkey sales contract is that the sale of plant and technology should always be concluded separately form the buy-back commitment. In addition to the derived nature of this trade from the production or extraction, buy-back arrangements generally differ from counterpurchase transactions in that the sums involved are much larger and the contract period longer, usually between five and twenty years. In addition, the value of the buy-back commitment is usually more than 100 percent of the original export transaction in order to the cover financial charges and local costs, whereas in counterpurchase this ratio is almost always less than 100 percent or at most equal to one. In almost all buy-back cases, the supplier of plant and equipment and the supplier of the knowhow and/or technology share the buy-back obligation proportionately to their share in the underlying turnkey contract.

Buy-back transactions need to be distinguished from co-production or industrial co-operation arrangements. In many cases, such arrangements are the implemmentation of government-to-government trade protocols. Among their major goals have been the extrtacting of natural resources such as oil ~~or coal,~~ the mechanization of agriculture and light industries, and/or industrialisation of given country.

Buy-back is the most rapidly growingg form of CT due to growing demand for technology in Eastern European and developing countries. In the second half of the 1970's, buy-back deals were mainly limited to sales of plant and equipment to exploit raw materials or to produce bulk chemical goods. But during the first half of the 1980's, they have expanded to the manufacturing industries as well.

Advanced buy-back negotiators of either side do not like buy-back commitments expressed as a fixed amount every year due to rapidly rising and falling prices overtime. In general, all payments in kind, are determined by current world competitive prices at the time of shipment. During each shipment, price of raw materials, bulk chemicals, and other commodities quoted on an international exchange can be easily figured out and thpy can be sold fairly easily. But, the manufactured non-standard products offered in buy-back does not have world market prices and is not always easily marketable.

As the buy-back deals usually take 5 to 10 years at least, professional trading houses do not play a big role in the settlement of buy-back transmactions due to the rapid fluctuations of the market values of the products usually offered in buy-back[10]. The US, Japanese and, to some extent, EEC-located companies, in general tend to request that buy-back products, particulary from Eastern European and developing countries, be marketed outside their home countries, knowing that cheaper buy-product goods from these countries would compete with domestic products.

B. Non-conventional forms of Countertrade:

a) Advance Purchases

Advance purchases represent an inverted version of counterpuchase commitments. "The foreign supplier asks for advance payment in kind rather than supplying his equipment first and waiting for payment until the countertrade goods have been shipped and sold"[11]. In fact, advance purchases are made by a supplier in good faith that the exporter of the advance-purchased goods will subsequently order (counterpurchase) a corresponding amount of equipment and services from him. In addition to collateral and bonafide advance purchases, another form of advance purchase is warehousing and pledging collaterals[12].

The sales proceeds of the advance-purchased products are either kept inhouse by the supplier, or put into an "escrow or interim account" with a bank outside the advance-delivering company's home country, or used to establish "fancy letters of credit'.

In warehousing and pledging collateral type of special transactions, a producer of mainly agricultural products and minerals would need funds before his goods can or should be sold. The producer might need funds before the collateral products were harvested or mined, or he has the collateral products readily available, but does not want to sell them at the time he needs funds due to low market prices for the product. In practice, this type of collateral business is typical for companies operating in the agricultural or mining sec-

10 For the detailed analysis of the buy-back contract, volume, fulfilment and pricing of buy-back products, see ASTRO Manual 1985, op.cit., Chapter V on pp. 156-194; R.Mirus and B. Yeung, "Buy-back in International Trade: mA Rationale" Weltwirstchaftliches Archiv, Vol. 122, No.2 1986 pp. 371-374; H.Oygur, "Karşılıklı, Ticaret", H.Unv. Iktisadi ve Idari Bilimler Dergisi, Cilt 4, Sayi 1-2, 1986, pp.119-125.

11 H. Ferenz, pin UNCTAD Report March 1986 op.cit. p.4.

12 For detaliled analysis see ASTRO Manual 1985, op.cit., Chapter VIII on pp. 282-309.

tors. For example, suppose that a firm X (FX) from an African country entered into negotiation on import of spare parts from the USA. Assume that no hard currency will be available for the deal, and FX has to make payment in mineral product. The problem form FX was that the world market prices for the minerals were depresed and it would suffer a loss from an immediate sale. An agreement might be reached that the minarals should be warehoused in the USA and the right of the title be transferred to the US spare parts company. The US company would hold the goods but was not sell them without the FX's approval. Thus, the risk of speculating for a price increase at the mineral exchange was on FX's side. If the prices would fall further at the certain agreed percentage, the right of disposal should automatically be transferred to the US company. Thus, the full value of the US company's sale to FX could have been secured by a last minute emergency sale.

b) Offset Deals

Offset deals are usually concluded upon governmental initiative for imports of military equipment and hardware, commercial aircraft and infrastructural development projects such as the construction and installation of airports, power station and communication systems. The offset-bound supplier commits himself to generate a certain amouunt of hard currency to help the offset-demanding government (importer) pay for his prime purchases and/or the supplier is supposed to invest in the importing country and agrees to purchase components for these goods and other related or unrelated products from this country.

Such deals are typical between multinational corporations in industrial countries on the offset-bound side, and STOs or government procurement offices on the offset-demanding side. Often, government bodies on either side will be involved from the very beginning or intervene in the negotiation. Offset deals has long been an established form of CT in defence systm and aircrafts, but in this decade, it is becoming more common in non-military sectors especially where the importing country is seeking to develop its own infrastructure and industrial capabilities. During the first part of 1980's,it has risen in frequency and also involves industrialized countries. Terms of delivery and consequently payment conditions of such projects are around five years, and they are usually financed by not only the offset-bound supplier but also jointly by state or public sector funds of both the supplier's government and the importing government[13].

Offset fulfulment may be the investment in new factories or the expansion of existing production facilities in the importing country, in may cases, with the subsequent buy-back of products from these plants. In a number of cases, counterpurchase of unrelated goods and services or commodities and the export marketing of unrelated products may be part of an offset package. Offset deals often lead to long-term cooperation, co-production and/or subcontractor production, licenced production, overseas investment (joint venture), technology transfer[14]. All of these arrangements are beyond the fulfillmentm of the original offset demand and they involve a significant backward-forward linkage effects (spillover effect) on the industrial development in the offset-demanding country.

3. Historical Development and Magnitude of Countertrade Transactions

a) Historical Development of Countertrade

Countertrade is a modified modern version of the classical barter which dates back to ancient times when there was a direct exchange of goods and services between societies. Since the eighteenth century, as a result of the completion of the monetization of global society, barter trade increasingly diminished as a percentage of world trade, as gold, British pound and the US dollar provided a suitable intermediary in international transactions.

Although the world increasingly moved toward monetization and away from barter during the last three centuries, global liquidity crisis in general, debt and foreign exchange problems in particular required the periodic use of non-monetary trade. In the 1930s, there was increasing recurrence of barter, bilateral and clearing arrangements as a result of the Great Depression. In the post-World War II era, barter and other forms of countertrade arrange-

13 Irish Export Board, Guides to Exporting: Countertrade, (Dublin Irish Export Board, August 1985) p.56; and ASTRO Manual 1985 op.cit. pp. 45 and 275-276.

14 For the definition of these arrangements see, Goverment of Canada on Countertrade, op.cit., pp.1-2.

ments became the main instruments for intra-East Bloc trade as well as for trade between East and West. In the West, in addition to the post-war reconstruction of Europe and Japan, most of the military sales and the evolution of the military/industrial complexes of Western Europe and the United States have been linked since World War II by different forms of countertrade arrangement[15].

From 1950 to mid-1970s, the strong growth in world trade has been largely as a result of the elimanition of trade barriers and increased opportunities for exchanging goods and services as a multilateral basis. But, since mid-1970s, there has been a noticeable increase in the various forms of countertrade deals, in response to the global recession, high interest rates and growing protectionist trend. All of these negative developments, including the ten-fold increase in oil prices between 1973 and 1980, resulted in huge external debt in most of the non-oil-exporting developing counhtries towards the end of 1970s[16].

Recently CT practices are spreading steadily. For example, in 1973 only 15 countries bartered regularly. Currently, as of June 1986, 22 countries had announced explicit legislation related to CT, while 72 other countries have various type of CT directives, and rest of the countries conduct CT without spelling out their policies and withouut admitting it officially[17].

B. Global Value of Countertrade

The most recent estimates of the percentage of CT in international trade vary enormiously-from 10 to 40 percent, depending upon the definition used[18]. The following is a selection of the estiamtes:

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15 J.Giffin and W. Rose, op.cit pp. 178-184; P. Agarwala, "Countertrade Policies and Practices of Selected Asian Countries and Their STOs", paper presented at Workshop on Countertrade, Beijing, China, September 1985 (UNCTAD/UNDP Project RAS/81/068), pp.4-5.

16 Government of Canada, Countertrade Primar for Canadian Exporters (Ottaa, External Affairs off Canada, October 1985) p. 2; L. Eisenbrand, "Why is Countertrade Thriving?" in UNIDO, Industry and Development, No.15, (New York, UN, 1985) p.39.

17 UNCTAD Report March 1986, op./cit., pp.4-; ASTRO-Manual, pp. Survey 1-8 or Appendix- I of this research on world-wide spread of CT.

18 Ibid (UNCTAD), p.5; L. Eisenbrand, op.cit., p.37; S.Rubin, op.cit., p.7; IMF, Annual Report on Exchange Arrangemet and Exchange Restrictions, (Washington D.C., IMF 1986), footnote 10 on p.33.

Institutions	% of World Trade
IMF	Around 10
UNCTAD	25-30
U.S. Dept.of Commerce	35-40

Terminological and classfication difficulties as well as the lack of official national trade statistics on CT deals are the main reasons for the variation of these estiamtes. When the above mentioned both conventional and non-conventional types of CT mechanisms (which excludes bilateral trade) are in-

TABLE-I

Estimated Percentages of Countertrade in the Exports of Main Country Groupings, as provided by Mr. H. Ferenz*.

Region	Share of World exports	Of which: Countertrade portion	Countertrade as share of world trade
OECD	65	25	16.3
OPEC	10	15	1.5
CMEA (COMECON)	10		
of which intra-CMEA	(70)	80	5.6
Other countries	(30)	40	1.2
Non-OPEC Developing Countries	15	20	3.0
			27.6

With world trade in 1984 estimated at $ 2,000 billion, countertrade is estimated to be at least $ 550 billion, to which a margin of over $ 100 billion may be added.

* Source: UNCTAD, " Report on the Asian Regional Workshop on Countertrade" held at Kuala Lumpur (March 24-28,1986)p.32.

cluded, it is estimated by Helmet Ferenz, the UNCTAD Consultant, that CT transactions accounted for 550 billion dollars or 27.6 percent of the world trade (2,000 billion dollars) in 1984.

Out of this 27.6 percent, as can be seen from the Table-1, 4.5 percent belongs to developing countries, 16.3 percent to OECD countries and 6.8 percent to East European and other countries. In 1984, estimated portion of countertrade in the exports of OECD countries was 25 percent; 15 percent for OPEC and 20 percent for non-OPEC developing countries. For Islamic countries, this percentage probably reached to 25 percent in 1984.

According to the estimate of ASTRO, in 1985, counterntpurchase deals accounted for 51 percent of all the CT transactions in the world. The usage of CT by major types is estimated to be as follows:

Barter 14 percent,
Compensation 6 percent,
Counterpurchase 51 percent,
Buy-back 12 percent,
Offset deals 15 percent, and
Advance purchase 2 percent.

Even if there is an agreement on the definition of CT, there will still be tremendous variations in global estimates which are caused by the lack of data on transactions and the secrecy that surrounds its practice. For example offset deals can hardly be quantified since there is a lot of political secrecy involved. There are other factors which cause the lack of data on CT transactions. Firstly, they are not separately tabulated in standard national trade statistics. Secondly, most governments are reluctant to give information on their CT activities due to political reasons, especially as the US, IMF, World Bank and GATT have openly opposed mandated CT transactions. Thirdly, most estimates are based on rumours of proposed deals rather than actual CT transactions which will be realized in many years[19].

In the absence of any official statistics from the national authorities, it would be difficult to figure out a definite figure correctly reflecting the global value of CT transactions. All that one can say is that the practice of CT deals are on the upswing, not only among developing countries but also in industrialized counties.

19 ASTRO Manual 1985, op.it. , pp. 16-17; and J.Griffin and W. Rouse, op.cit. , pp.190-191; G.Banks, op.cit ., p.162.

United Nations Industrial Development Organization (UNIDO) estimated, in 1985, that CT deals increased 50 percent in 1981, 64 percent in 1982 and 117 percent in 1983[20]. According to an Oxford publication, today, more than 2500 companies, over 500 banks and 250 brokers are doing CT world wide, and annual value of CT transactions in world trade reached to $ 250 billion in 1986. Thus, "countertrade has become a corporate strategy for successful business growth. With the challanges and potential of countertrade incereasing, it has long been felt there is need for a countertrade"[21].

C.Features of selected Countertrade goods and services:

Goods and services entering into a CT transaction may be of different nature and no rule exists as to which goods and services would be better for CT than others. This section examines some of the major problems and pitfalls inherent in CT goods mostly offered by developing countries in world-wide CT deals[22].

Raw materials are generally not offered by CT demanding developing countries as CT goods since they can easily be sold for convertible currency. Whenever raw materials are offered in CT deals, they usually form part of a government-to-government agreement through STOs or implement a large buy-back arrangement.

In such an arrangement, the buy-back-accepting firm would generally provide mining equipment and accept payment in ores or minerals which have been mined with these imported equipment. There is almost no quality problems in this typea of deal but main issue might be delays in deliveries.

A number of developing countries are offering increasing amount of semi-manufactured or finished products which are mainly from the fields of engineering, chemistry, metallurgy, light industry and agriculture. Semi-manufactured products include diverse materials such as preserved foodstuffs, various

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20 L.Eisenbrand, "op.cit", p.37.

21 Oxford, "The Oxford International Countertrade Directory" (Oxford, De Bard (U.K.) Ltd., 1988), see. introduction and cover pages. See also, Appendix II of this research which includes name, addresses and specilly of some of the CT companies establishend in the industrialized countries.

22 For further information, see "ibid"., pp. 104-118; T.Kopinski, "op.cit". pp.16-19; Government of Canada, "op.cit". p.3; J.Garson, "Compensated Trade: Experience of Some African Countries", paper prepared for UNCTAD Secretariat, UNCTAD/ECDC/Misc. 20, July 1985, pp. 22-25; G.Banks, "op.cit." p.167.

textile products, furniture, iron and steel bars, wire, aluminium profiles, flat glass and different type of synthetic materials for which export markets have yet to be established.

The main issue of the semi-manufactured and finished product in a CT deal is the quality problem of the CT goods. The quality of these products in developing countries varies widely from country to country and often within the same country from firm to firm. Semi-manufactured or manufactured products from joint ventures with industrialized countries' partner are rarely available as CT goods, because they are mostly reserved for domestic consumption and seldom for hard-currency exports.

Any company accepting these low quality goods to fulfil its CT obligation should be prepared to spend much time and effort in reselling of such goods. Because of this reason, many CT-committed induustiral companies usually rely on the services of a trading house which has experience and proper knowledge of the market to resell these items with a minimum loss.

Some CT-demanding developing countries offer services as the object of countertrade. Such services include consultancy services, shipping and freight services, insurance, tourism, construction or even unemployed worker and manpower[23]. The CT policy and practices of selected Muslim countries will be described in the following part.

23 Public Enterprise, Vol.6, May 1986, p.264.

PART-II
PRESENT COUNTERTRADE PRACTIES
IN
OIC MEMBER COUNTRIES

PART-II

PRESENT COUNTERTRADE PRACTICES IN OIC MEMBER COUNTRIES

1. General Consideration for CT Regulations.

Countries with explicit CT **legislation** are still in the minority, but the number of countries is rising where a diversity and complexity of foreignm exchangge and foreign trade regulations constitute inevitable governmental **directives** for CT demand by importers. CT legislation is usually available in print to foreign negotiators and a legislation enacted country openly declares its goals of expanding this method of international transactions.

CT directives are not openly announced to the public and, in many CT-demanding countries, the existence of directives is even denied by the authorities. But, they are passed to the CT-demanding country's importers, and they often refer to the directives requiring that, for a certain catigory of imports, a prescribed percentage of the total contract value have to be financed by counterexports of local goods and services. The categories of products and percentage of CT obligations vary from country to country and industry to industry, depending on national import priorities. Even in each country, the percentage of CT obligations may change from one fiscal year to another as a result of change in import priorities and strategies[1].

As of June 1986, 22 countries enacted CT legislations, 72 countries have CT directives, and in 118 countries CT is demanded by individual companies. In OIC member countries, CT legislation exist in 5 countries, while 17 of them

1 ASTRO-Volume Manual, op.cit., pp.55-56.

have CT directives, and in 24 countries individual companies are demanding CT in their foreign trade transactions[2].

TABLE-2

SPREAD OF CT IN OIC MEMBER COUNTRIES (JUNE 1986)

Type of CT Practices	OIC Members
CT Legislation enacted	Indonesia, Jordan, Malaysia, Saudi Arabia and Syria.
CT Directives (CTD)	Algeria, Egypt Guinea (Bissau), Guinea (Conarky), Indonesia, Iran, Iraq, Jordan, Libya, Malaysia, Morocco, Nigeria, Pakistan, Saudi Arabia, Syria, Tunisia and Turkey.
CT demand by companies	CTD countries and Bangladesh, Benin, Senegal, Sierra Leone, Somali, Sudan, and United Arab Emirates.

Source: *Derived from ASTRO Survey 1986, "ASTRO-Volume Manual, Complimentary Manual of Comprehensive Reference Service on Countertrade", (Ljubljana, ASTRO, 1985) pp. Survey 1-8.*

As can be seen from the Table-2, currently 24 OIC member countries are practising CT in their foreign trade deals. Indonesia, Jordan, Malaysia, Saudi Arabia and Syria have enacted CT legislation and most of the Middle Eastern and North African countries have CT directives. In several Muslim countries, CT deals are mostly carried out by private firms without any official sanction. The more common CT deals are known to have involved exchange of crude oil for manufactured goods and construction sevices. CT deals in oil increased

2 For further information, see ASTRO Survey-1, in ASTRO-Volume Manual, op.cit. , pp. Survey 1-8; or Appendix-I of this study.

during the recent years. It is estiamted that CT affects some 20 percent of OPEC exports[3]. In general, the crude oil may be exported at offical OPEC prices, but the price of imported CT goods and services may be artificially overcharged to offset any loss on resale of the oil and/or to give hidden discount to the oil importers[4].

2. Countertrade Policies and Practices in Selected OIC Member Countries

This section investigates recent CT experiences of the 15 selected member countries. Regulations of CT, export goods and services available in CT (CT export goods), name of the potential CT contacts, and major CT deals (CT case examples) in 1984-87 period are included for each country.

Algeria

Although the Algerian government has not yet formulated a clear-cut CT policy, foreign supplier are being strongly encouraged to accept petoroleum at official OPEC prices or other Algerian export goods and services, as partial payment. Many state tradingg organisations (STOs) require certain percentage of CT for their imports. But, so far, there has been no published account of Algerian requirements for CT deals[5].

Algeria has centrally planned economy and all imports are being made by the STOs with respect to an annual import program. Petroleum and oil related products account for over 90 percent of country's export earnings. Ministry of Commerce of Algeria has drawn up a list of around 100 products which are available for purchase of foreign importers. The list include crude oil and natural gas, chemicals, iron ore, textiles, electrical appliances and other in-

3 IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986 (Washington D.C., IMF, 1986), p.32; J. de Milamon (1985), op.cit., p.24, footnote 4.

4 J.Garson (June 1985), op.cit., p.18.

5 ASTRO-Volume I, p. Algeria 1-3; Govt. of Canada on countertrade, "op.cit.", p.12. Hereafter, ASTRO-Volume I and ASTRO-Volume I and ASTRO-Volume II will be called as ASTRO-I and ASTRO-II respectively; M.O. Bagais, "Countertrade Synopsis of Selected Middle East and European Countries", Trade Promotion Department of IDB, November 1987.

dustrial and mining products. Phosphates are usually offered only in exchange for phosphate mining equipment imports. Sometimes, Algerian CT offers also have included manpower for projects in tropical areas[6]

Inl spring 1984, Algerian STOs exported wine, textiles, plastic consumer goods, semi-finished products, and crude oil to European suppliers for a minimum of 15 percent of the individual contracts for a 6,000 units of housing projects (275 million US dollars) in the El-Djazair governate. In 1986, Algeria has also entered into an arrangement with Yugoslavia exchanging crude oil ($ 160 million) for Ingra's extension of runways and maintenance hangers ($ 160 million) at the Baufarik military air base, south of Algiers[7].

Potential CT contacts:

- Institut National Algerian du Commerce Exerieur.
- CNCE- Centre National du Commerce Exterieur.
- CNC- Chambre Nationale de Commerce and other state trading and economic enterprises.

Bangladesh

In Bangladesh, there is no official government policy on CT. But the country have engaged in CT not only with Eastern European countries, but also with Western European and developing countries. Bangladesh engages in CT through a number of Western trading companies. For example, there is a special relationship between the state-owned Trading Corporation of Bangladesh (TCB) and five Western trading houses. They have been purchasing jute, carpets, and leather in exchange for rice, palm oil and some machinery[8].

Currently, jute accounts for 90 percent of country's export earnings. Jute export is mainly handled by TCB, the Bangladesh Jutea Export Corporation (BJEC) and Bangladesh Jute Mills Corporation (BJMC). Imports are financed either from the country's own resources or with foreign aid, loans and barter arrangemens. Banglasdesh operates an import entitlement strategy for certain sectors, where imports of materials and suppliers are licenced for manufac-

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6 "Ibid".

7 "Ibid", pp. Algeria, 8 and 10; M.Bagais, "Ibid". pp.5-6.

8 ASTRO-I, pp. Bangladesh 1-3; Govt. of Canada on CT, "op.cit.", pp.13-14.

turers who can prove convertible foreign exchange export earnings. Value of permitted import is set at a certain percentage of export value[9].

Main CT export goods of Bangladesh are jute products, rice, palm oil, carpets, garments, paper andn leather products. The government sometimes proposed buy-back deal to assist the finance of capital investment projects.

In 1986, an agreement was signed with Bulgaria to sell $ 175-200 million worth of jute products, tea, and clothing in exchange for pig iron, raw cotton, machinery and fertilizer, over five years. 1985/86 trade agreement between Bangladesh and USSR called for the purchase of $ 84.3 million goods and raw materials. Raw jute, jute goods, tea, tobacco, leather and special textile would be exported for machinery, machine tools, steel rolls, cotton and high-speed diesel oil[10].

Potential CT contacts:

- TCB.
- BJEC.
- BJMC.
- Ministry of ~~Industries and~~ Commerce, Division of Foreign Trade, Commerce, Industries and Jute.
- Bangladesh Garments Manufacturers and Exporters Association.

Egypt

In Egypt, the Ministry of Economy and Foreign Trade guidelines of Februrary 1985 have officially permitted CT transactions. The price of CT good is handled by the Ministry. The Egyptian CT export goods have to be priced above an officially set minimum due to existence of huge subsidy system in the many sectors of the economy.

According to the February 1985 guidelines, the following Egyptian products may be included in CT transactions: crude oil, petroleum products, cotton, cotton textiles, fruit, citrus fruits, onions, garlic, potatoes and phosphates. Egyptian CT offers also include manpower for work on turnkey projects in African and Near Eastern countries[11].

9 Ibid., IMF (July 1986), Exchange Arrangements, op.cit. pp.111.

10 ASTRO-I, pp. Bangladesh 7-8.

11 ASTRO-I, pp. Egypt 1-4.

Egypt's foreign trade system is still highly complex, even though considerable liberalization has taken place since 1976. The country establishes annual foreign exchange budgets for both imports and exports. This budget provides annual specific quota for each sector and the authorities of each sector decide which goods to be imported within the quota. The public sector is the only importer of most goods from payment agreements countries. Percentage of these products in total Egyptian exports have been always more than 70 percent during the 1980-84 period[12].

In 1985, Egypt has entered into a trade agreement with Ethiopia exchanging steel, iron, clothing and medicaments ($ 25 million) for the Ethiopean fresh and frozen mutton ($ 14 million), leather ($ 2.5 million), coffee and sugar ($ 6 million), and any other products ($ 2.5 million)[13].

There are only two responsible institutions for Egypt's CT deals. These are:

-Ministry of Economy and Foreign Trade, Foreign Trade Division.
- Export Development Bank of Egypt, Countertrade Unit.

Indonesia

Indonesia was the first OIC member country which formally enacted CT legislation and directives. The Indonesian governmentl introduced a CT policy to increase and diversify the country's non-oil exports on January 1, 1982. The policy applies to all public sector contracts and government-funded projects valued in excess of 500 million Ruphiahs (approximately $ 450,000) and obliges foreign suppliers to purchaase ndonesian products equal to the FOB value of their contracts, within te time span of these contracts. Private sector transactions, projects financed by concessional loans and credits from the World Bank, Asian Development Bank, and Islamic Development Bank are excluded from CT requirements. Domestic components of projects provided by foreign contractors, including services and taxes, and import procurements

12 IMF, "Document of the IMF for the Arab Republic of Egypt" Report No. SM/857198, July 10, 1985, Table 63, on p. 129.

13 ASTRO-I, p. Egypt 5.

for joint ventures between State enterprises and foreign partners, legal, technical or advisory services and patents are also exempted from CT requirements[14].

Import items covered by Indonesian CT guidelines are fertilizers, buses, aircraft instruments, oil and gas-drilling eqquipment, chemicals, basic materials and industrial machinery. The Department of Trade and Cooperatives periodically issues a list of export products which can be linked to imports from specific countries, or group of countries and are available to meet CT commitments toward country's public sector. The principal Indonesian CT export goods are rubber and rubber products, cement, textiles, cocoa, coffee, tea, timber canned fish, fruit juice, glassware, carpets, furniture and plywood[15].

Official Indonesian CT regulations are more than seven years old. Despite some early problems, business has taken off. One indication of the system's workability is the way fees for handling obligations by independent trading houses have come down from 5-10 percent to 2 percent. During the first four years, more than $ 1.5 billion worth of contracts and counterpurcphase obligations have been arranged with 23 countries[16].

Table-3 shows that during the first four years after the CT policy went into effect, a total value of $ 1,444 million counterpurchase obligations were contracted. Out of this total, only $ 615.5 million (1,443.89x42.63) had actually been fulfilled. Twenty-three countries have been involved in such obligations, led by West German ($ 391 million), Japanese ($ 285 million) and Canadian companies ($ 212 million). 82.4 percent of CT commitments were contracted by OECD countries whereas only 12.5 percent by devoloping countries.

It is also reported that during the first two years of the implementation of this policy, total purchase obligations by foreign suppliers of only $ 350 million were recorded, compared to a target amount of $ 1.5 billion. Out of this committed obligations of $ 350 million, only $ 60 million had been realized

14 Ibid., pp. Indonesia 1 and 10-12; Govt. of Canada on CT, op.cit., p.21; P.N. Agarwala, op.cit., pp. 15-16. For further information on Indonesian CT policies and eligible products, see Appendix-III of this research. It contains 1982 version of the offical text of the "Guidelines for the implementation of linking Government Import Procurements with Indonesian non-petroleum products.

15 Ibid.

16 Euromoney Trade Finance Report, "Indonesian Barter: Great System, But...", V. No.41, September 1986, p.29.

Table-3
Countertrade Commitments by Foreign Countries in Indonesia (as of September 30, 1985)

	CT Commitment (in $ mio)	Fulfilment in %	Unsettled (in $ mio)
Australia	20.80	30.19	14.62
Austria	22.18	11.09	19.77
Belgium	1.62	-	1.62
Canada	212.15	32.01	144.25
France	23.63	60.35	9.70
Italy	9.59	11.68	8.47
Japan	285.07	62.29	139.30
Netherlands	38.17	93.95	9.09
Sweden	1.76	122.73 (*)	- 0.40
Switzerland	1.53	6.54	1.42
United Kingdom	77.89	37.60	48.78
USA	104.47	94.17	10.69
West Germany	390.98	62.28	147.89
OECD	1,189.84	46.66	555.20
% of total	82.41		
GDR	6.58	34.35	4.32
Poland	4.91	214.66 (*)	- 5.63
Rumania	61.95	100.03 (*)	- 0.02
CMEA	73.44	101.81	- 1.33
% of total	5.09		
Hong Kong	16.90	56.80	7.39
Malaysia	2.36	100.85 (*)	- 0.02
Mxico	1.26	-	1.26
Panama	1.01	49.50	0.53
Singapore	88.40	65.09	34.13
South Korea	63.99	83.03	11.62
Yugoslavia	6.69	-	6.69
Devoloping countries	180.61	34.11	61.60
% of total	12.50		
Total	1,443.89	42.63	615.47

(*) Advance purchases, creating CT credits for future supplies to Indonesia

Source: ASTRO, **Comprehensive Reference Service on Countertrade with Regular Updater,** Volume I, Ljubljana, ASTRO, 1985-1987, p. Indonesia 7.

by October 1982, increasing to $ 144 million at the end of 1983[17].

Thus, in first two years, the total value of the counterpurchase obligations has reached only 23 percent of the target (350/1500), and that of the Indonesian goods delivered in exchange reached to only 41 percent of the total obligations (144/350) and 6 percent of the initial target (144/1500). As seen in the Table-3, during the first four years, the ratio of fulfilments to the total value of counterpurchase obligations also reached only 42.63 percent. These failures can be attirbuted to the shortage of high quality and enough light-industry products.

In practice, it is estimated that over 70 percent of all CT transactions with Indonesia are in natural rubber or rubber products, while foreign suppliers tending to avoid buying other Indonesian CT export goods due to lack of quality and transport problems[18]. In addition, most of the Indonesian exporters are unable to offer CT goods of suitable quantity, quality and/or price. Indonesian STOs do not actively assist foreign contractors in finding suitable goods to qualify for counterpurchase. Foreign contractors with CT commitments mut spread their purchases over various suppliers in order to remain within acceptable price ranges and quality levels. But, locating such suppliers and placing the orders can be very difficult and time consuming and thereby costly. This will lead the price of Indonesian CT goods to a level above that prevailing on the world markets[19].

In order to alleviate these problems, Indonesian CT policy has been considerably refined since its introduction. For example, according to one of the policy changes in late 1983, if Indonesian suppliers cannot provide sufficient amounts of the CT goods required or not at competitive price levels, then the CT obligation may be revised and the legal minimum purchase period extended[20].

In early 1984, Indonesian CT policy has been liberalized further in the following manner:[21].

17 ASTRO-I, p. Indonesia 8.

18 Ibid., pp. Indonesia 24.

19 Ibid., p. Indonesia 7; Euromoney (Sept.1986), op.cit., p.29; Govt. of Canada on CT, op.cit. p.21; J.de Miramon, op.cit., p.27.

20 Ibid., ASTRO-I, p. Indonesia 6.

21 Ibid., pp. Indonesia 6-7.

-The penalty imposed on foreign company who cannot fulfil its CT commitment has been officially reduced from 50 percent to a maximum 15 percent. This penalty has been imposed only for the value of the unfulfilled portion of the CT commitment. But, in practice, no penalty seems to have been imposed for non-compliance up to mid-1985.

-Starting with the signing of the CT obligation, the purchase period of Indonesian CT goods has been extended from six months to one year after the foreign suppliers have made their deliveries.

-"additionality of CT exports" has been also clarified. If the foreiggn suppliers have not previosly imported Indonesian goods, the exports effected through CT will be considered as additional.

Since the intoduction of its CT legislation in January 1982, the Indonesian governmennt has issued many public sector tenders for international competitive bidding that involved purchase obligations by the foreign companies. The largest single tender was $ 127 million worth of urea, tripple superphosphate, potash and ammonium sulphate, which amounted to 977,000 metric tons. This deal is awarded to the Japanese, East German, West German and US companies[22]. In 1983, one of the US company supplied fertilizers ($ 45 millionn) to Indonnesia in exchange for cement, rubber, coffee and other agricultural products ($ 45 million)[23].

Potential Indonesian CT contacts are:

-BULOD- Badan Urusan Logistic.

-NAFED- National Agency for Export Development, Department of Trade and Cooperatives.

-PT Dharma Niaga State Trading Corporation.

-PT Pantja Niaga State Trading Corporation.

Iran

During the first part of 1980's, the Iranian governmet has increasingly relied on a policy to tie imports to oil purchases, even insisting on barter in some situations. The Iran-Iraq war has caused a need for imports in almost every sector of the economy. Faeling oil prices since 1985 forced the Ministry of Oil to make barter arrangements to maintain its crude oil export targets

22 Ibid., p. Indonesia 2.

23 Ibid., p.31.

and foreign exchnange proceeds . Crude oil is to be sold preferably to state trading companies. Because, private companies tend to re-export the oil through traders to destinations and at prices over which the country has no control. The price of bartered crude usually is determined both in official and spot market prices, even though the ratio varies from one deal to another depending on the eagerness of the foreign suppliers. In general, 70 percent of bartered oil will be at the official price and 30 percent at the spot market price. According to a mid-1985 ruling by the Ministry of Oil, foreign barter partners have to refine the Iranian crude oil in their own country rather than re-exporting it to other countries[24].

Apart from oil, as a CT goods, the country occasionally offers following products, but in limited quantities due to strains on the econmy caused by the Iran-Iraq war. These are carpets, dried fruit, hides, skin, nuts, minerals and some chemical and metallurgical products. But, most of these products are not competitive on the world market both in price and quality[25].

Foreign trade is predominated by STOs and state-owned procurement and distribution centers. Private commpanies also have to channel their foreign trade through these state institutions or Iranian STOs. During the recent years, Iran has reduced its dependence on straight barter transactions. Instead, the government prefers CT transactions (partly paid for in cash and partly in kind) through government-to-governmet bilateral trade agreements. Iran has bilateral payment agreements with Eastern European countries, Brazil, Pakistan, Syria, Turkey and Uruguay. For example, recently Iran and Turkey renewed with a $ 2.2 billion trade agreement signed in Ankara[26].

Potential CT contacts:

- The Ministry of Commerce.
- The Bank Markazi Iran (Central Bank), and
- NIOC- National Iranian Oil Corporation are jointly responsible for the formulation and application of CT policies in Iran.

Iraq

Iraq practices CT in a number of different ways. Through government-to-

24 For further information, see, Canadian Governmet on CT, op.cit ., pp. 21-22; ASTRO-I, pp.Iran 1-3.

25 Ibid .

26 Euromoney Trade and Finance Report", July 1986, p.9.

government agreements, Iraqi crude oil has exchanged for armaments, industrial equipment and development projects. These agreements may also be used to cover already existing Iraqi debts to the foreign trade partners. Under a second type of CT deal, the country offers crude oil and/or sulphur to foreign contractors to cover their unpaid receivables. The rarest type of agreement is the conterpurchase of industrial goods. In this case, foreign consumer or industrial goods paid for in part with Iraqi industrial goods[27].

Foreign trade is widely monopolized and handled by specialized STOs. They all have a monopoly power on their respective foreign trade activities. Because, in foreign trade, in addition to the principle of vertical integration, almost for each sector, separate STOs were established for export and import activities[28].

Iraq has a fairly broad range of products suitable for CT. But, crude oil is still the dominant factor in CT with Iraq. Because, crude oil export accounts for more than 95 percent of the country's total foreign exchange earnings. Apart from crude oil and sulphur, there are some other CT products namely, car and truck tires, car batteries, plastic pipes, dates, citrus fruits, hides and skins, textile fibres, rugs and carpets.

In 1985, Iraq made a CT contract with a South Korean company for consruction of a ship repair facility ($ 729 million), over 3.5 years, in exchange for crude oil ($ 729 million). During last few years, the country has also entered into many CTarrangements with Brazillian, Turkish, French and West German companies exchanging crude oil for industrial goods and construction works[29].

Potential CT contacts:

-ISEO- Iraqi State Export Organization.
-ISOI- Iraqi State Organization for Import.
-INOC- Iraqi National Oil Company.
-State Organizations for Grain.
-State Organizations for Engineering Industries.
-State Organizations for Buildings, Housing and Road & Bridges.

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27 ASTRO-I, pp. Iraq 1-2.

28 For further information, see, Emin Carikci, "Role of STOs in Economic Cooperation", internal research paper prepared for IRTI/IDB in 1986, pp. 42-44.

29 For further information, see ASTRO-I, pp. Iraq 19-23.

Jordan

Promotion of CT has been an official policy of the Jordanian Government since the begining of 1984. By a government regulation, enacted late in 1983, foreign bidders on state procurement contracts exceeding individual values of $ 12 million are expected to counter-purchase 35-50 percent of the import value in phosphate[30].

Depression in the world phosphate market has obliged the government to look for opportunities to countertrade its phosphate rock in payment to foreign contractors and suppliers. The Jordanian phosphate rock is an acceptable CT goods, thanks to its good sales value due to its high quality.

CT policy of the country is administered by the Ministry of Industry and Trade. Main potential CT contacts are Jordan Phosphate Mines Co. Ltd; Jordan Fertilizers Industry Co. Ltd; Ministry of Supplies and Jordan Cement Factories Co.

Libya

The Government of Libya has issued CT directives to its state enterprises to counterpurchase imports in exchange for crude oil and oil products. The country prefers bilateral CT agreements, particularly for the import of investment goods and services. Oil barter agreements may be used to cover outstanding and overdue payments for imports of industrial and consumer goods, completed construction services, and even advance payments for future imports[31].

In 1984-85, debts overdue to 48 Turkish contractors and other creditors were paid for in 3 million tons of crude oil ($ 700 million), and half of this Libyan debts were for contractors services and offered after completion of construction works. In 1985, similar CT arrangement is made between Libya and Turkey[32].

Potential CT contacts are:

- Public People's Secretariat for Economy, Compensation Commit-

30 ASTRO-I, p.Jordan 1.

31 L. Welt, op.cit., p.107; ASTRO-I, p.Libya 1.

32 ASTRO-I, p. Turkey 15.

tee,

- Secretariat of Petroleum,
- Brega Oil Marketing Company.

Malaysia

The Government of Malaysia introduced a CT policy in 1982, and has been promoting its use for government tenders since 1983. In order to implement this policy the Government has set up a special CT unit as *"Unit Khas Countertrade"* in the International Trade Division of the Ministry of Trade and Industry on August 1, 1983. This unit serves as an information clearing house and provides advice and guidlines to the all Government departments and agencies on their CT transactions. Malaysian Government has not fixed the percentage of the Malaysian import that should be covered by CT, and most terms are negotiable on a case-by-case basis. In generalm, 30-40 percent of import may suffice as a CT requirement when a new market can be opened for the country's manufactured goods. But this percentage might be increased up to 100 percent for Malaysian primary products. As a result, for the Malaysian manufactured products, settlements can be partly in kind and partly in foreign currency[33].

Unit Khas is responsible for drawing up lists of available CT goods in Malaysia, and determining whether a foreign company's offer is acceptable, and also identifying the possible sources of supply of the CT goods demanded. Main CT goods are manufactured goods such as textiles, footwear, electrical components and articles including household air-conditioners, foodstuff, as well as rubber and wooden articles. Crude palm oil and tropical timber have been excluded from the list of CT goods in mid-1985 due to limitations of their supply. Crude oil is also excluded from CT linkage except for bilateral government-to-government agreements. Malaysia accept CT goods in exchange for products it needs in substantial quantities such as rice, wheat, raw sugar, chemicals, iron ore, coal, cotton, animal fodder, fertilizers, advanced machinery, vehicles, and military equipment[34].

In conclusion, the main objective of Malaysia's CT policy is to increase the export of manufactured goods to the countries in which its manufactured

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33 P.Agarwala (1985) op.cit ., pp.16-017; ASTRO-I, pp. Malaysia 1-2; Government of Canada on CT, op.cit . pp.23-24.

34 ASTRO-I, pp. Malaysia 3 and 7.

goods face entry and marketing problems. Goods to be imported into the country in exchange for Malaysian CT goods shall be those goods that are not sufficiently produced or not produced at all in Malaysia. But inadequate production of manufactured goods may be an inhibiting factor to increase the export of these items especially in multi-million dollar CT deals[35].

In 1985, the Malaysian Overseas Investment Corporation has entered into a trade agreement with Brazillian Cotia Trading Company exchanging rubber, crude oil, rubber processing machinery, and tin for the Brazillian iron ore, cotton, fodder, grains, foodstuff including frozen meet, heavy equipment, commuter planes, light arms, paper and chemicals. In this agreement, the transactions were valued at 500 million dollar in each direction[36].

Potential CT contacts are:

- Unit Khas Countertrade, Ministry of Trade and Industry.
- Malaysian International Trading Corporation (MITCO).
- Malaysian Transnational Trading Corporation (MATTRA).
- Malaysian Overseas Investment Corporation (MOIC).
- Bumiputra International Corporation (BIC).

Morocco

The Moroccan government did not yet issue any policy statements or passed any regulations, but, in general, any application for an import licence will be looked upon favourably if accompanied by a CT proposal. Imports of investment goods under public tenders require up to 100 percent CT. CT deals are approved on a case-by-case basis by the Director of Foreign Trade, and by the Office des Charges[37].

In Morocco, main CT goods are phosphate, phosphorous fertilizers, foodstuff, textiles, leather goods, shoes and carpets.

Potential CT contacts are:

- The Director of Foreign Trade, the Ministry of Commerce, Industry and Tourism.
- Office de Charges, Banque du Maroc.
- Centre Marocain de Promotion des Exportations (CMPE).

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35 Ibid., pp. 4 and 7.

36 Ibid., p. Malaysia 12.

37 ASTRO-I, pp. Morocco, pp. 1-3; Government of Canada on CT, op.cit, p.25.

Nigeria

In Nigeria, there are no official regulations on countertrade. CT has been an acceptable policy by the Government only for countries experiencing a severe foreign exchange shortages. The Government must also be assured that the sale of the Nigerian oil in exchange for agricultural and industrial products will not compete with, or replace, the oil sold in the country's traditional markets. Approval for CT deals is made through an inter-ministerial board consisting of the Ministers of National Planning, Petroleum and Energy, Finance, and Commerce and Industry[38].

In Nigeria, the main CT goods is crude oil. Other CT goods might include natural rubber, tin, zinc, and some agricultural products such as cocoa, coffee, palm oil and kernels. However, Nigerian agricultural goods are generally not price-competitive in the world markets, and the country has been facing transportation problems to locate and ship any major quantity required for a large-scale CT transactions[39].

In 1984 and 1985, Cotia, the Brazillian trading company, has signed two separate CT agreements with Nigeria worth 500 million U.S. dollars. This agreement has renewed for 1986 and extended beyond the original $ 500 million amount. Nigeria has been exchanging crude oil for the Brazillian sugar, cotton, salt, tires, chemicals and petrochemicals, flat and non-flat steel products and volkswagen automobiles[40].

Potential CT contacts are:

- Federal Ministry of Trade.
- Federal Ministry of National Planning.
- Federal Ministry of Mines and Power.
- Nigerian Institute of International Trade (NIIT).

Pakistan

In Pakistan, there is no legislation covering the practice of CT deals. However, the Government encourages CT and considers it as an acceptable means

38 The Government of Canada on CT, op.cit ., pp.26-27.

39 ASTRO-II, pp. Nigeria 1 and 7.

40 S. Rubin, op.cit , p.56.

of increasing export those items which cannot be sold by Pakistani exporters for convertible foreign exchange. Such deals are usually arranged by the STOs of Pakistan. Private trading companies are also allowed to enter into CT transactions with foreign governments if reciprocal letters of credit are established in hard currency[41].

The most important export items namely cotton and rice are reserved in CT to STOs of Pakistan. There are some other CT products such as industrial equipment, metal goods, consumer goods, handicrafts, hand-made woollen and silk carpets, textile, leather goods and sports articles[42].

Recently, state trading and private firms have been involved in a number of CT transactions. For example, in 1984, the state airline, PIA, has purchased six Boeing airliners ($ 187.7 million) and 20 percent of the price ($ 37.5 million) will be paid in locally produced spare parts and machinery suitable to Boeing's specifications. In 1985, an agreement was signed with Iran to sell $ 400 million worth of rice, cotton, cotton yarn, synhetic fabrics, chemicals, sports articles and jute products from Pakistan in exchange for Iranian crude oil, edible oil, cumin seeds, and motor parts[43].

Potential CT contacts:

- Ministry of Commerce of Pakistan.
- Export Promotion Bureau of Pakistan.
- The Federation of Pakistan Chamber of Commerce & Industry.
- TCP- Trading Corporation of Pakistan Ltd.
- LIDO- Leather Industry Development Organization.

Saudi Arabia

Until the late 1970's, Saudi Arabia's economy was based entirely on the steady growth of crude oil extraction and exports. In the early 1980's the country began to reduce its dependency on crude oil and trading income by diversifying its industrial and agricultural bases. The main official policy instrument for that purpose has been the offset regulations and agreements.

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41 ASTRO-II, pp. Pakistan 1-6; The Government of Canada on CT, op.cit., p.27.

42 ASTRO-II, p.Pakistan 4.

43 ASTRO-II, pp.Pakistan 8-9.

Today, Saudi Arabia has officially well defined and well publicized offset regulations. As a Saudi trade policy instrument, barter or counterpurchase of crude oil has not been endorsed officially and has been used rarely[44].

According to mandatory Saudi Arabian offset requirements, 30 percent of an investment contract has to be subcontracted to Saudi contractors, 30-35 percent of a military procurement contract must be invested in local manufacturing and equity of the joint venture must be shared 50:50 between the foreign investor(s) and the public Saudi partner(s). In certain petrochemical joint ventures the foreign partners are obliged to **buy back**, usually, 50 percent of the output of the project. In spite of these restrictions, Saudi Arabia's offset regulations are considered attractive to the foreign investors, because 75 percent of the offset investments are financed by Saudi financial institutions[45].

The guidelines of the Saudi offset program called for highly-automated capital-intensive manufacturing, emphasizing defence products and particularly electronics, so as to establish high-technology services and industries in the Kingdom. Thus, the main objectives of this program are to develop manufacturing capability and services, transfer technology and capital, and launch training programs for Saudi labour force, and ultimately diversification of the economy and export items.

In 1985, the $ 1.2 billion worth of the Saudi "Peace Shield" defence system was awarded to a consortium headed by U.S. Boeing Aircrft, and including Westinghouse Electric, ITT's Federal Electric Corporation, Computer Sciences Corporation and Frank Basil, Inc., a construction company. In order to execute the offset program, Boeing established a holding company, Boeing Industrial Technology Group (BITG) with its consortiuум partners. Peace Shield which is a computerized command, control and communications system is scheduled to be fully operational in S. Arabia in 1992,and eventually will be linked to the command centers of the GCC (the Gulf Co-operation Council) members, namely S. Arabia, Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates. It will be the most technologically advanced integrated air defense system outiside of NATO and WARSAW blocs[46].

44 For detailed analysis of Saudi Arabi's offset regulations, see S. Rubin, op.cit ., pp. 1089-113.

45 Ibid ., p.109; ASTRO-II, pp. Saudi Arabia 1-5; L. Welt, op.cit , p.108.

46 Ibid .

This program has already resulted in investmentm in the following offset products and industries[47].

Fixed-and rotary-wing aircraft
Helicopters
Commercial and military electronic products
Integrated logistic support products
Computer hardware
Computer software
Digital switching equipment
Digital transmission equipment
Fibre-optic equipment
Specialized seeds
Intravenous solutions and administration sets
Hypodermic syringes and needes
Diagnostic reagents
Surgical and examination gloves
Nonwoveens and incontinence products
Catheters and tubing-
Vacutainers
Kits and trays
Urological products
Electrical generation and distribution equipment
Data communications equipment
Petrochemicals and plastics
Industrial spare parts
Light assembly or manufacture of electrical power equipment
Agricultere equipment

Potential CT contacts are:

- Petromin- General Organization for Petroleum and Minerals.
- SABIC- The Saudi Basic Industries Corporation.

Syria

Upto mid-1986, Syria had no official rules and regulation on CT. CT transactions were carried out only occasionally on **ad hoc** basis through the country's public and private companies with the Middle Eastern and East

47 S. Rubin, op.cit ., p.113.

European countires. As a result of recent accumulation of considrable trade debts, the country was obliged to introduce an official policy on CT in early 1987. It was hoped that without restoring the external borrowing, Syria intended to service some of its debt in commodities which could not be sold under regular commercial terms due to the lower demand for them, even though the country's potential CT goods such as cotton and phosphates were in good quality[48].

In June 1986, Syrian Government set up the inter-ministerial **Export Committee** which representing the Ministries of Agriculture, Industry, Labour and Social Affairs, Oil and Mineral Resources, Planning, and supply and internal trade. Thus, with the committee set up to assess CT proposals and approvals, Syria became one of the countires practising an active CT policy geared towards boosting its exports and alleviating its severe foreign exchange shortage.

Syria under CT program exports phosphate rock, cotton and textiles in exchange for imports of machinery, spare parts, and pharmaceutical products. Around 80 percent of Syria's economy is nationalized and mostly STOs are handling foreing trade activities.

Potential CT Contacts

- Ministry of Economy and Foreign Trade
- Ministry of Oil and Mineral Resourceds
- General Company for Phosphate and Minerals
- NAISE- General Foreing Trade Organization for Textiles
- SAYARAT- Foreing Trade Organization for Machinery and Equipment
- SAYADALAYA- Foreing Trade Organization for Pharmaceutical Product.

Tunisia

Although Tunisia has not issued any policy statements or passed any regulations, countertrade is accepted as a legitimate trading tool. Because, recently country has been facing a soft market for two of its major export items namely petroleum and phosphates. Recently, there is also decline in agricultural exports due to import duties in the European Economic Community. In July 1984, the Directorate of Foreign Trade established a new STO

48 For detailed information see ASTRO-II, pp. Syria 1-9.

called SCIT to handle the Tunisia's growing need of CT. SCIT concentrates on ~~promoting exports of surplus goods, namely wine, olive oil, fodder, phos-~~ phates and cork, in exchange for cereals, cotton textiles and wooden products[49].

Phosphate are the items offered for CT in the large quantity, along with a broad range of agricultural products such as wine, oilve oil, dates and some processed goods. Buy-back is also a possibility, since some Tunisian texttile manufacturers have offered subcontracting of garments for foreign companies in return for machinery and other equipments.

In 1984, Tunisian Export Promotion Center (CEPEX) has entered into a trade agreement with a French construcation company. The Company built a phosphoric acid complex in exchange for Tuisian agricultural products, phosphates and textile. In this agreement, construction of the complex was valued at 101 million U.S. dollars whereas Tunisian export goods were valued at 134 million dollars[50].

Potential CT contacts:

- SCIT- Societe de Commerce International de Tunisie.
- CEEPEX- Centre de Promotion des Exportations.
- Groupe Chimique Tunisien.
- Federation Nationale du textile.

Turkey

In Turkey, there is no legislation and regulatory framework covering the practice of CT transactions. Turkey practices CT on a country-by- country and case-by-case basis. Only state economic enterprises (SEEs) and private general trading companies (GTCs) with annual exports over $ 50 million are authorized to participate in different forms of CT operations. The scope for different forms of CT authorized with respect to country or case by the undersecretariat of the Treasury and foreign trade is widely practised[51].

Turkey's crude oil imports, which amount around $ 4 billion annually, are usually made under government-to government bilateral counterpurchase

49 ASTRO-II, pp. Tunisia 1-3; The Government of Canada on CT, op.cit p.31; M. Bagais, op.cit., p.11.

50 ASTRO-II, p. Tunisia 5.

51 ASTRO-II, Turkey 1-3 and 13-17; S. Rubin, op.cit. pp. 131-134.

agreements with the country's major oil suppliers, namely Iran, Iraq, and Libya. Turkey also has imposed sizeable offset requirements in connection with its purchase of military goods, and equipment from the USA. Recently, Turkey has entered into a CT agreement with the USSR to import large quantities of Soviet natural gas to be paid partly in cash and partly in kind by Turkish export goods and services.

The most important Turkish CT goods are minerals, chemicals, textiles, consumer durable goods, cereals and foodstuff. Turkish CT offers also have included services such as construction and mining work.

In the last two years, Turkish import figures reached over $ 11 billion per annum, and over 50 percent of imports are accounted for by the SEEs[52]. During the recent years credibility of the Turkish Government has increased substantially because of the following reasons. Firstly, during the 1980-86 period real GNP grew at an annual average rate of over 5 percent, while the curretnt account deficit of the country was reduced from 6 percent of GNP in 1980 to about 2.6 percent in 1986. The public sector borrowing requirement also declined from about 10 percent of GNP in 1980 to about 6 percent in 1982[53].

In 1984, using these favourable developments as a lever the Governmnt has introduced its very own project finance policy, called as "built-operate-transfer" (BOT) scheme to encourage the development of local manufacturing industry and the transfer of technology through direct foreign capital investment. Foreign investors are expected to install and run the plant, to sell the output to domestic end-users and to compensate themselves from the profits thus generated. After full amortization of investment in certain number of yerars, the plant would be transferred to Turkish public ownersihp. Turkey has tried to apply BOT for the instalment of power stations. But, none of these has yet been realized because of the Government's unwillingness to give a sovereign guarentee for this type investment[54].

Turkey has been negotiating government-to-government clearing agreements with Iran and Iraq since 1982. The country has been trading crude oil for Turkish goods and services. However, the actual marketing and sale of the

52 For further information, see Emin Carikci (1986), op.cit., pp. 45-48.

53 World Bank, "Turkey-Release of the Second Tranche of the Financial Sector Adjustment Loan", World Bank document No. Sec M87-278, March 19, 1987, p.1.

54 Euromency Trade Finance Report, June 1986, pp. 73-75.

goods and services listed in trade protocols are handled on a competitive basis by both Turkish private GTCs and STOs. Payments are made in dollar basis without interfering with the free market through the respective countries' Central Banks. In this sense, trade agreements between Turkey-Iran and Turkey-Iraq cannot be considered as a "pure" barter, but they are a "currency offset". As a result of these arrangements, during the recent years annual Turkish-Irano and Turkish-Iragi trade volumes (exports+imports) have reached $ 2 billion levels in each direction[55].

Turkey's $ 4.2 billion deal to purchase and co-manufacture General Dynamics (USA) F-16 jet fighters included a provision for $ 2.5 billion in offset program over a ten year period. This offset program is started up in late 1984, and the compan's offset commitment includes investment in the Turkish agricultural sector and an aircraft assembly plant at Murted-Turkey, and construction of a new Hilton Hotel in Ankara.

Again in late 1984, Turkey has signed its biggest CT agreement with USSR. According to the agreement, Turkey will import large quantities of soviet natural gas during the coming 25 years through pipeline. Construction of the pipeline is completed in 1988, and during the initial years the value off the deal estimated $ 1 billion each yerar, rising to $ 3 billion in early 1990s. Payments will be realized by Turkey partly in cash and partly by goods and construction services. For this purpose, following products such as cereals, foodstuff, textiles, minerals, chemicals and other goods will be exported from Turkey to USSR. In addition to the natural gas, Turkey is expected to import machinery, iron, steel, fertilizers, chemicals, timber,and paper from the Soviet Union, and the country has the right of re-exporting some of the Soviet products[56].

According to the annual trade agreement of June 1986, again more than $ 2 billion worth of goods and raw materials will be exchanged between Turkey and Iran. Manufactured goods including tractors, machinery, plastic and aluminium products ($ 350 million) wheat, barley and fertilizers (totalling $ 250 million), other agricultural products ($ 80 million), steel ($ 200 million), and minerals ($ 70 million) will be exported from Turkey to Iran in exchange for Iranian crude oil ($ 600 million) and non-petroleum products ($ 500 mil-

55 For further information see, ASTRO-II, pp. Turkey 13-16; and S. Rubin, op.cit , pp. 131-132.

56 Ibid , and P. Turkey 25.

lion) including fresh and dried agricultural products, trucks and buses ($ 114 million), textiles ($ 67 million), detergents, ceramic tiles, leather and leather goods ($ 42 million) cotton and mining products ($ 83 million)[57].

Potential CT contacts:

- Ministry of Commerce of Turkey, Foreign Trade Department.
- Etibank.
- Fiskobirlik.
- Petkim Petrokimya A.
- Enka Pazarlama Ihracaat Ithalaat A.
- Mepa Merkezi Pazarlama A.
- Ram Dis Ticaret A.
- Tekfen Dis Ticaret A.

57 ASTRO-II, p.Turkey 22.

PART-III

ECONOMIC MOTIVATION AND ORGANIZATION OF COUNTERTRADE AND PROSPECT FOR COOPERATION AMONG THE OIC MEMBERS

PART-III

ECONOMIC MOTIVATIONS AND ORGANIZATION OF COUNTERTRADE AND PROSPECT FOR COOPERATION AMONG THE OIC MEMBERS

1. Motivations and Costs of Countertrade Policies

A. Rationale for Countertrade:

Countertrade is, in general, motivated by the desire to economize on the use of hard currency, the desire to stimulate the transfer of advanced technology from abroad, to improve access to foreign markets and maintain market shares, and to take advantage of available credit facilites in the industrialized countries. The emergence and recent growth of CT demands may be attributed to several factors in different groups of countries[1].

In the Eastern European countries, CT is generally motiovated by shortage of hard currency and the desire to stimulate the inflow of modern technology and know-how from Western countries, to reduce the uncertainties in forecasting foreign demand for their export product and to use it as a means of achieving bilateral balancing of foreign trade. Thus, these countries consider CT an

1 For further information, see IMF, Exchange Arrangements and Exchange Restrictions , Annual Report 1986 (Washington D.C., IMF, 1986), pp. 32-33; Irish Export Board, op.cit ., pp.8-11; L. Welt op.cit . pp. 4-7; T. Kopinski, op.cit ., pp. 3-8; UNCTAD Report March 1986, op.cit pp. 8-15;and G. Grant, "Countertrade: Third World: Practical Option", Pakistan and Gulf Economist , December 21-27, 1985, pp.57-59.

essential tool of central economic plannig with which to balance their international trade and reduce balance of payment deficits.

Many developing countries are now turning to CT in response to conditions that closely parallel those of Eastern Europe in the 1970's: growing debt service ratio, falling commodity price, geneally the worsening terms of trade, declining export and import capacity, shortages of convertible foreign exchange and thereby deteriorating domestic economic performance.

Countertrade is not ka common practice in trade between the industrialized countries which conduct over 75 percent of their trade between themselves. The major exceptions have arisen in defence, aviation and large high technology deals which often involve an element of offset deals or counterpurchase. As mentioned before, offset deals involve longest fulfillment period from five to twenty years, large amount of and wide range of economic activitiy, from investing in or purchasing from a selected industry or industries, to joint produc tion, sub-contracting parts of large projects and the transfer of advanced technology.

In developing countries, the basic goal of each government is to provide the economy with necessary imports in the circumstances of heavy external debt burden. By allowing CT deals, officially or unofficially, these countries normally try to pursue the following goals through CT transactions. These are promotion of non-traditional product exports, increase in foreign exchange reserves, improvement of balance of payments, penetration into new markets, opening of markets for goods that may not be internationally competitive, opening possibility for a discount on the multilaterally fixed official (say oil) prices through inflated price of the country's export good.

a) **Overcoming Foreign Exchange Shortages:**

The most common favourable argument for CT practices is that it enables to increase the import capacity of a country which has been facing hard-currency shortages by linking of imports to exports. The foreign exchange shortage arises when a country lives beyond its external means of payment. Many developing countries with overvalued currencies and tight exchange controls see CT transactions as a way to carry out foreign trade when the price system no longer allows them to solve their balance of payment problems through traditional trade arrangements.

When the allacations of foreign exchange are insufficient for certain companies in the nation through CT they are unable to conduct foreign trade. They are able to obtain necessary foreign raw materials, equipment and technology which are needed to increase the export capacity of firm and the nation.

CT deals may also increase the availability of hard-currency credit from the industrialized countries, and could raise a country's capacity to import which may result in increase volume of exports or an improved terms of trade.

b) **Promotion of Exports and Additionality in Exports:**

By linking of imports to exports developing countries and their enterprises might not only secure necessary intermediate goods, but also gain entrance to foreign markets where their products could not be sold for cash, thereby overcoming the various market barriers. Thus, additionality of exports was one of the main objectives in conducting CT. It is possible to secure additionality by issuing a list of commodities and products that have not been exported to a target market, together with a list of countries to which the goods could not be exported because of their poor quality and/or high per unit cost. Such products might include primary commodities with some value added, but the emphasis would be on non-traditional products such as semi-manufactured and manufactured goods, depending on the merits of each case.

Regarding evaluation and monitoring of additionality in exports and the diversification of export markets involve many problems and these problems cannot be underestimated. In order to attain these objectives, a complex system of controls need to be established, so that CT export goods will not be re-directed to the country's traditional markets. For that purpose, the control of shipping documents and customs clearance forms is necessary to prevent a situation of unwanted self-competition in traditional markets, even though the full effectiveness of such control are questioned.

In addition, during the negotiation phase, it is very important to define clearly the following explicit terms to avoid subsequent disputes.

These are,

- the full description of products and services available for countertrade;
- the delivery schedules of these goods and services;
- their technical specifications and standards;
- pricing mechanisms and their financial values;
- quantities available under countertrade operations;
- the possibility of transfer of commitments to third parties; and
- other commercial terms and conditions specific to CT. For example, if a

full description of the goods and services could not be given, at least trade and marketing prohibitions and penalty clauses for non-fulfillment of the CT obligations should be explicitly mentioned in advance[2].

c) **Other Benefits of Countertrade:**

One of the major justrification given for its current widespread use by the governments of developing countries is that CT deals do not imply a direct budgetary outlay. Other justification is that CT transactions assist in disguising prices and offer a means to adopt differential pricing without openly contravening international producer agreements, so long as the CT dealis on an **ad hoc** and limited in scope. For example, CT can act as a hidden discount on the official price off commodity exports by allowing a country to charge the list price for its exports while paying above the market prices for counter-traded imports. Thus, the complexity of the deal makes it possible to hide the real price assigned to either purchase or sale. CT deals might also help in maximising the buyer's bargaining power if there is bulk exchange of products and services[3].

B. Constraints Against Countertrade:

a) **Countertrade as an Instrument of Multiple Exchange Rate**

When a domestic product is sold at less than the official price and/or an import is bought for more, the result is a selective devaluation, tailormade for each CT transaction. Then, CT is the equivalent of a hiddetn export subsidy, an import tax or a mixture of the two. Thus, CT may be used as an instrument in bringing about a sort of selective devaluation or multiple exchange rate applicable to each CT transaction. This leads to price distortions in view of the spill-over effects in the rest of the economy, and regressive social transfer if costs were loaded on to imports widely used and consumed among the poorer part of the population[4].

This, multiple exchange rate has detrimental effect on not only efficient allocation of resources, but income distribution as well. The exchange rate is the price of foreign exchange in terms of national currency. It is a key variable which affects the relation between domestic and foreign prices. Implementation of realistic exchange rate policy, rather than multiple exchange rate, might be the most effective instruments or simultaneously promoting exports and reduc

2 UNCTAD Report, Ibid , p.11.

3 Ibid , pp. 7-8; P. Agarwala, (1985), op.cit , p.26; J.'de Miramon, Countertrade: An Ippusory Solution, The OECD Observer , No.134, May 1985, p.25; J.Garson, op.cit ., pp. 22-23.

4 Ibid .; T. Kopinski, op.cit. , p. 6-7.

ing imports in an efficient manner without any administrative burden[5], since devaluation is usually considered as a combination of a float **ad valorem** import duty to all imports and an equivalent ad valorem subsidy on all exports[6]. But, contrary to a devaluation that operates across the board for all trade deals, CT transactions produce selective, arbitrary and case-by-case devaluation which would lead to the following direct and indirect economic disadvantages for the economic development of a country.

b) Socio-economic Costs of Countertrade:

As mentioned before, governments, especially in developing countries, have been tempted to use CT since it does not require a direct budgetary subsidy and that this is one of the reasons for its current widespread use. Even if this policy does not require budgetary outlay, the economic costs assocated with it have to be borne by the socienty as a whole. When the promotion of exports of certain manufactured products is linked to a higher cost of foodstuffs or oil imports, then one of the by-products of this CT may be a virtual tax on the relatively large number of users of the imported product, a tax whose proceeds accrue.to the smaller group of producers of the goods exported.

Apart from the basic issues of inefficiency of resource allocation and social costs, some of more common serious direct economic disadvantages of CT deals generally encountered are:[7].

- a limited choice of products or services that are available for trading at internationally competitive prices;
- poor quality of goods;

- the difficulty of marketing products that are not directly consumed by the buyer, especially when the exporter places geographical or commercial restrictions on the marketing of products;

- a higher product cost resulting from payments of commissions or fees to the middlemen (trading house, broker, consultant/agent or banker) handling sales of products and from bridge financing that may be needed, due to long delivery dates;

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5 P.Agarwala, "Prie Distortions and Growth: A study of the Association in Developing Countries", Finance and Development , March 1984, p.35; Emin Carikci, "Trade Strategies and Prospect for Economic Coopperation among selected OIC Member Countries Egypt, Saudi Aràbia and ", Research paper prepared for IRTI/IDB in 1985, pp.92-93.

6 N. Kaldor "Devaluation and Adjustment in Developing Countries", Finance and Development , June 1983, p.36.

7 IMF, Exchange Arrangements (1986), op.cit ., p.33, I. Modara, op.cit ., p.10.

- a higher financial cost resulting from additional risk which is not usually present on normal bank-financed foreign trade that must be covered, and

- possible distortions in the internal sector and delay in the adoption of necessary adjustment measures.

c) **Complexity of Countertrade Deals**

Countertrade is a complex, expensive and risky method of trading. Because, traders have to involve purchase and re-sell goods outside their area of product specialisation and with no readymade cash markets in the industrialized countries. Theyhave to buy from unknown suppliers, pay prices that are generally inflated for inferior quality of goods, worry about shipping documentation, warehousing, insuring and financing export of products. A countertrade transaction could involve finding buyers and sellers, conducting prolonged negotiations, managing currency transactions, exposing oneself to risks and still remaining competitive, as can be seen from the following example.

"A convoy of trucks loaded with fresh strawberries crosses the border from Hungary into Austria. Several weeks later, a container load of strawberry jam, packed in Austria, arrivves in Cairo for sale on the local market. A broker in Hong Kong, acting on instructions from the Austrian trading company at the center of the web, prepares a mixed shipment of video recorders and tape cassettes for delivery to Budapest. Soon, Hungarians are happily watching "Rambo" videos, the Egyptians are eating jam and the Austrian trading company is looking for a customer for several tons of Egyptian rugs and traditional dolls. No money has changed hands, but the economies of four conutries have benefited from the intricate commercial minuet - another successful exercise in modern barter-trade"[8]

Administrative procedures involved in finalizing CT deals can be also more lengthy and complex, especially when participating countries do not have written offical rules and regulations on thne subject. Because of this and other reasons, a great number of CT transactions are not completed successfully. However, many non-oil exporting developing countries, due to shortage of foreign exchange, may face a dilemma between CT or no additional trade at all. This might be the reason why an increasing number of developing countries are considering the implementation of official rules and regulations on countertrade.

d) **Complexity of Negotiating and Drafting Countertrade Contracts**

It is recently estimated that 51 per cent of all CT deals are in the form of

8 Newsweek, January 209, 1986, p.34.

counterpurchases. Buy-back is becoming one of the most rapidly growing forms of CT transaction forming a share of 12 per cent in all CT deals[9]. Since these two types of CT deals account for around two-third of all the CT transactions, a brief information on their contractual issues would be of an immense help. In fact, contract formalities or counterpurchase and buy-backs are very similar and involve two separate contracts namely the **primary sales contract** and the secondary sales contract or **CT contract.** These two contracts should there be linked together with a **protocol.**

Except in the case of pure barter deals, where products are generally exchanged under a single contract, most CT deals should consist of two separate purchase agreements, namely **primary contract** and **CT contract** and a third agreement as a **protocol,** linking the two together. Thus, even though the following analysis primarily applies to the counterpurchase and/or buy-back contacts, every bit of their details will equally apply to the other forms of CT transactions, excluding barter[10].

As a result, a CT agreement constitutes the protocol, the primary contract (the primary sales agreement) and the secondary contract (the secondary sales agreement or the CT contract), and they should include the following clauses or provisions:

Protocol: It is essentially an agreement setting out the réciprocol nature of obligations, with the parties entering into the two independent sales contacts.

Primary Contract (the primary sales).

- **Recitals:** The parties entering into the agreement.

- The **time of execution** of the contract.

- The **obligation of the purchaser.**

- The **description of the goods** and their detailed specifications.

- The **quantity of the goods** covered by the contract and any allowable percentage variatinos in the quantity.

- The **price of the goods** shipped and the terms of their payments.

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9 ASTRO Manual 1985, op.cit . pp.16-17.

10 T.B. McVey, "Countertrade and Barter: Alternative Trade Financing by Third World Nations", The International Trade Law Journal , Spring/Summer 1981; J.C. Grobow, "Negotiating and Drafting Contracts in International Barter and Countertrade Transactions", North Carolina Journal of International Law and Commercial Regulation , Spring 1984, pp. 255-271; L. Welt, op.cit pp.35-37.

- The **method of payment**, including the currency and the allocation of risks and burden of exchange rate losses.

- The **time and terms of delivery** of the goods.

- **Packaging and shipping** such as the terms of shipment, the type of vessel.

- **Insurance:** The responsibilities of the respective parties as to the provision of a policy of marine cargo insurance.

- A clause stating the **governing law as to risk and title.**

- **Documents** that specify the responsibilities of parties for delay and the processing of the documents.

- The **invoice.**
- **Quality** guarantees **of goods.**

- **Buyer's rights to inspect the goods** or provide for inspection by a neutral party at the port of destination or place of delivery.

- **Remedies** agreed upon by the parties **for defaults** arising out of late delivery and/or for any breach in the contract concerning delivery.

- Consequences of **Force majure** such as of strikes, lockouts, trade disputes, war, riots, fires or epidemics etc.

- The **consequences** suffered by either of the two parties to the contract in the event **of a bankruptcy.**

- **Arbitration and appeal**

- The **choice of the law** for hearing disputes. It states the parties agree that the court of a named country will hear the dispute.

- The **languages** of the contract.

Secondary Contract (the CT contract)
-**Recitals:** The parties entering into the agreement.

- The **time** of contract execution.

- The **obligation of the seller** to make **counterpurchases** from the buyer.

- Listing the **available goods** and the availability of period of time.

- The **obligation of the counterpurchaser** to take the goods subject to contract.

- The **description** and detailed specifications **of the CT goods.**

- The **quantity** of the goods covered by the contract and allowable percentage variations in the quantity.

- The **price** of the goods and the **terms of their payments.**

- The **time period** to complete the counterpurchases by the seller.

- **Marketing restrictionns,** if any, imposed upon the seller with respect to the use or resale of the CT goods.

- The **method of payment,** including the currency and allocation of risks and burden of exchange rate losses.

- The appropriate **time and terms of delivery** variations.

- **Packing and shipping** indicating the terms of shipment, the type of vessel etc.

- The type of **insurances.**

- **Documents** related to the responsibilities of the parties for delay and processing of the documents.

- The **invoice.**

- **Guarantees of quality.**

- **Seller's rights to inspect the goods** or provide for inspection by a neutral party.

- A clause as to **default.**

- **Penalties** to be paid in the event of contract breaches by the seller.

- Consequence of **Force majure** such as strikes, lockouts, trade disputes, war, riots, fires or epidemic etc.

- The consequences of a **bankruptcy.**

- The **choice of the law** to be applied to the resolution of a dispute.
- The **languages** of the contract.

Buy-back contracts are also similar to above mentioned contracts. However, primary contract of buy-back contains additional clauses on the following matters as performance of equipment/technology, consultants and technical advisors, and overall separation of equipment and technology.

Making two separate contracts in most CT transactions has its merits. Firstly, separate contracts allow the two parties the obligation to be insulated from each other. Secondly, two separate contracts make it easier to obtain subsidized credits and/or export guarantees from a bank or national Eximbanks for the primary sales contract, since it is separated from the obligations of the CT side of the transaction. In addition, each party is aware of the obligations it needs to perform independetly. If one party encounters any setback, the other party (the nonbreaching party) is stratetgically in a better position to have a claim to make an independent contract.

Although two contracts are independent, it is important to note both of them are negotiated simultaneously. Since more than one legal system are involved in CT deals, it is vitally important the wording of the contracts leave no ambiguity in their interpretation.

2. Organization of Countertrade, International Institutions and the Future Prospects of CT Deals

Section 1 in Part-III clearly shows that CT is a complicated and risky business. In East-West trade, Eastern European countries are the initiators of countertrade. In market-oriented developed and developing countries STOs are in most cases the initiators of CT deals. In some developed countries CT offers sometimes are initiated by private companies.

A. Role of the Public Sector and STOs:

Unlike the Eastern European countries, overwhelming majority of developing countries have no institutionalized systems of countertrade. In market-oriented countries, CT is in its infancy and the whole thing is in a process of evolution. But, the existing available experiences and skills on the subject currently are mainly in the developed countries. Developing countries are aware of the importance of CT deals and their STOs are gradually adobting the new system to their needs. But, still the major problem for most STOs is that CT deals are unfamiliar territory. Because these transactions are, in general, large and cover long time span, the risk of making mistakes can be very costly. Thus, STOs of developing countries have to get an insight into the complexity and difficulty of CT transactions[11].

a) Government Level

When any government introduces a CT in its foreign trade policy, in general, it aims at realization of following two basic goals. These are either that CT has to be limited to incremental trade, and/or that CT must be applied to secure financial cover for the country's import targets. Whenever a country's foreign trade policy reaches more sophisticated and diversified stage, the government most probably will then consider the CT only as an instrument of incremental trade expansion to the target markets. In this case, CT would not be permitted

11 For further information, see ASTRO, "Report of International Workshop on Countertrade" No. CTW-5, Belgrade, June 25-28, 1985, pp. 2 and 9; L. Eisenbrand, op.cit., p.47; ASTRO Manual 1985, op.cit. pp.373-383.

to reduce or redirect of established trade channels. Through the CT deals, the government would try to export the country's exportable surplus products to the target markets and thereby to alleviate the country's marketing weakness.

In reality, marketing weakness is not the only reason for increase in CT demands. Economies, greatly depending on export of raw materials such as crude oil, bauxite and phosphates or agricultural product namely, jute, rice and tea would in general find sufficient buyers for their output. The real issue is that these buyers cannot supply the products needed in return by the export countries. In order to face this problem, for devoloping countries, the establishment of some sort of CT coordinating bodies is advisable. However, there is no standard organizational system which would be the best for these countries, but the following conceptions could be more applicable to the needs of the developing countries[12].

In a developing country where there is a strong state economic influence in many sectors, **CT advisory committee** may be subordinate to the ministry of foreign trade and/or the central bank of the country. The committee members should be recruited from the ministries and/or industial sectors and can be exchanged on an **an hoc** basis for the peculiarities of each CT deal.

If strong public presence exists in a few industrial sectors with low state influence on the private sector, the CT **advisory committee** might be composed of representatives from the respective state-controlled industrial sectors and representative of the related private sectors. Representation of private sectors by the respective heads of commercial, industrial and/or agricultural chambers are more suitable. Inter-sectorial and **ad hoc** committee are giving better results than standing assignments. Any **ad hoc** committee could either be dissolved or assigned a new mission after completion of any advisory duty.

If a developing country has a strong private sector and low-influence public sector, the establishment of a **CT coordinating body** is advisable. This body could be an independent **legal** entity, similar to a national trading house in developed countries, that would deal for its own account without any linkage to any specific ministry or state institution.

b) STO or Corporate Level

If an STO or a company decided to engage in CT deals in its foreign trade transactions, the formulation of CT policies and their implementation should be in the authority of the same executive or same executive committee. Because,

12 For further information, see P. Agarwala (September 1985), "op.cit", pp. 19-22; Irish Export Board, "op.cit". pp.12-13; Astro Manual, "ibid".

CT-demanding side, in general, expects to negotiate with a single authority in order not to face any confusion during the implementation of CT arrangements. Again, there is no easy rule of thumb as to what organizational structure would be the best for an STO or a company, but, at least, the following conceptions which need to be approved or decided by the respective authorities are:[13].

- Shall we mainly be CT-demanding or CT-accepting in our foreign trade deals?

- If mainly CT-demanding: shouuld we include goods and services from a third party in our offer of CT goods?

- If mainly CT-accepting: should CT products be for internal use or resale to a third party?

- If mainly CT-accepting: should CT products be for internal use or resale to a third party?

- If resale to a third party; should it be handled through our own tradig division or an outside trading house?

In developing countries, the role of the private sector in CT is largely subordinated to that of the STOs. Only a few multinational private companies which have joint venture abroad are effectively able to engage in countertrade transactions.

Role of the trading Houses, Agents and Banks:

One of the options available to an exporter in dealing wih countertrade situation is to seek the assistance of a third party such as a trading house, broker, consultant/agent or specialized bank. They usually supply market intelligence for certain CT goods for a fixed fee or for a commission. On the basis of one of these charges or both, they might also accept the responsibility of the counterpurchase commitment.

A trading house or broker will agree to take given CT goods and open a letter of credit for its purchases only when it has found a definite buyer for these goods. The deals between 100 thousand and 500 thousand U.S. dollars are the ideal size of a compensation or counterpurchase commitment for the majority of a compensation or counterurchase commitment for the majority of trading houses. Because, in this range, it is easier to find one single end user to buy the full consignment. At the same time, if the deals are more than $ 0.5 billion, the exporter of the CT goods may not be in a position to deliver the full quantity in one shipment. On the other hand, transactions of less than $

13 ASTRO Manual, ibid., pp. 382-383.

100.000 may require almost the same effort in finding a buyer of CT goods as larger deals. As a result, the fees charged as a percentage of the obligation for a deal are expected to be higher for smaller transactions, lower for larger deals[14].

Recently, in the Western world, an ever increasing number of trading houses (companies) and banks are organizing themselves for CT transactions and actively engaging in this type of trade. They are operating according to functional, product and geographic specialization. They have already established their sales network for countertrade goods. Due to complexity of CT deals, the developing countries concerned are, therefore, becoming increasingly dependent on these intermediaries for the marketing of their exports of CT goods[15]. In order to assist exporters of the Muslim countries with the selection of an international trading house or agent for their CT deals, an alphabetical list of these intermediaries is included in Appendix- II of this study.

By employment of an international trading company's services, Muslim countries can counter their lack of marketing experience in CT deals and the growing tide of protectionism by penetrating those Western markets that have otherwise become inaccessible to cheap foreign exports. Securing of a trading house's services might also reduces the unit cost for producers by providing economies of scale in both marketing, distributing and financing of different trade projects[16].

A trading house or agent can be helful in the estimation of CT costs such as fees and subsidies. In practice, most CT experts use the term "subsidy" instead of "premium" or "discount", even though all of these expressions have the same meanting in CT activities. The subsidy represents the difference between the purchase price and the price at which the CT goods can be sold to a third party in target markets. In order to find a buyer for them in a target market, as an incentive in the form of subsidy, CT goods usually must be sold 5 to 20 percent less than purchase price, depending on type of commodities and products. The best salable CT goods are farm products and raw materials and thereby they are subject to a very low subsidy. Chemical products, consumer goods and semi-finished goods require a higher subsidy because of their limited marketability. Machinery and other industrial goods have to be subsidized at higher rates. For, differences in quality of products, the availability of spare parts and after-sale service and other factors result in varying degree of subsidies

14 Ibid., pp. 273 and 280.

15 Agarwala (1985), op. cit., 25-27.

16 R.B. Dennis "The Countertrade Factor in China's Modernization Plan", Columbia Journal of World Business, Vol. XVII, No.1 Spring 1982, p.67.

for the same type of industrial goods which purchased from different countries[17].

Selecting the proper intermediary in CT activities is not a simple process. An exporter has to make comparison shop, since the range of services and costs may vary greatly between trading houses and agents. It is also advisable that the only time fees are paid to an intermediary is when counterpurchase obligation has been fulfilled. The exporter can then pay the service costs which generally consist of a commision plus a subsidy. The commission covers the financing charges, cost of penalty guarantee, general operating expenditures and profit.

As can be seen from the Appendix-II, there are numerous banks and consultants which can provide assistance to an exporter for his CT transaction. In addition to offering CT services in the form of information on the various forms of CT, Banks also provide pre-export financing, assist negotiating CT arrangements, and locate buyers appropriate trading houses or companies[18].

C. International Institutions and Countertrade:

International institutions such as GATT, IMF and the World Bank have been founded, after the Second World War, on the principle that multilateral and free flow of international trade would lead to a better international economic order and development. The main criticism directed by these institutions against CT is that it inhibits the free flow of international trade by encouraging bilateralism[19].

In reality, legally these international institutions cannot intervene any country's CT activities, because IMF and GATT had no provisions that specifically prohibited the practice of CT. But, it is assumed that this practice implicitly violates the spirit if not the article of the GATT and IMF. In spite of this, some of the recent IMF stabilization programs which imposed ceilings on imports had paradoxically induced some non-oil exporting developing countries to expand their CT activities in order to evade such ceilings[20]. On the basis of some suppliers (exporters) reports, it is also stated that when the IMF is consulted in advance of CT agreements, it is likely to be flexible and grant its aproval[21]. In addition, implementation and enforcement of any IMF objection

17 For further information, see ASTRO Manual, op.cit., pp. 277-281; Irish Export Board, op.cit., pp. 12-13; L. Eisenbrand, op.cit., pp.48-53.

18 Ibid.

19 J. Garson, op.cit., p.31; IMF (1986), Exchange Arrangements, op.cit., p.33.

20 UNCTAD Report (March 1986), op.cit., p.7.

21 ASTRO Manual 1985, op.cit., p.57.

on CT activities are very difficult, because these practices, in general, are subject to trade practices by means of invisible administrative decrees.

D. The Future Prospects of CT Deals

Before 1980s, CT practices were used by many industrialized and developing countries mainly with the Eastern European Socialist countries in their mutual international trade. This form of trade has also spread stadily around the world in 1980s following the second oil crisis, historically high level of real interest rates which created debt crisis for developing countries, and increased protectionism due to the longest recession of 1980-83 since 1930s, and finally the collapse of the oil market.

In consequence of the above mentioned unfavourable factors, currently almost every country is facing very tight balance of payments. This situation caused initiation of a policy of CT instrument in many developing- including oil producing and developed countries. It is observed that this practice is spreading steadily. Those developing countries experiencing difficulties in meeting their high debt-servicing obligations, East European and industrializing countries lacking the foreign exchange reserves to import critical technological or other capital-intensive goods and services, or developed countries that seek expanded sales through penetration of new markets have engaged countertrade as an instrument of expanding trade opportunities.

Countertrade is an administrative response to the aggravation of trade and payment difficulties and it increases during the major economic shocks. Countertrade had emerged as a partial solution to the trading problems of the war-torn economies of Eastern and Western European countries during the 1940s and early 1950s. Different forms of CT again attracted universal attention in the 1980s, following the second oil crisis, which aggravated debt servicing ratios and led to decline in commodity prices and growing protectionism in industiralized countries. Huge debts and the lack of foreign exchange and other external bottlenecks for trade are likely to remain problems for most of the developing and East European countries for many years. As a result, the temptation for hard-hit nations to rely on CT will be expected to continue during the next decade[22].

In fact, during the first half of 1980s, CT demands have extended from low

22 For further information see, J. Griffin and W. Rouse, op.cit. pp. 180-181 and 192-204; T. Kopinski, "Global Perspective on Economic Motivations, Opportunities and Risks for STOs of Developing Countries in Countertrade", pp. 1-4, and A. Kumar, "Development of Countertrade: The Case of Yugoslavia", pp. 1-2, papers presented at International Workshop on Countertrade, Belgrade, June 25-28, 1985.

priority imports to particularly all other fields of imports. It has also demanded by not only developing and East European countries, but also high income oil exporting and industrialized countries. Today, an increasing number of trading companies and governments are preparing themselves for CT, and are actively engaging in it. The countries using CT have realized that conventional forms of trade and financing are no longer sufficient remedies for structural foreign exchange shortages and export weaknesses[23]. Thus, the trend toward CT is clearly increasing and this form of trade is likely to remain a feature of global trade, at least, until the end of this century.

3. Potential Areas for Economic Cooperation through Countertrade in OIC Member Countries and Future Prospects.

The growth of economic exchange between developing countries in general, Islamic countries in particular, has been affected by the economic conditions in both developing and industrialized countries. Until the Second World War, the developing countries specialized only in primary commodities and the very simplest of manufactured produts. Until the 1950's, much of third world exports went to the developed countries. Since 1950's, the acceleration of the growth of industrialization in the third world had created a favourable environment for the expansion of intra-trade (South-South) among the developing countries. In the early 1960's, the share of South-South trade in south-exports had reached 40 percent. But this ratio declined to less than 25 percent by the mid-1070's due to the emergence of more attractive market for the manufactured products of the third world in the industrialized countries. From 1960 to the mid 1970's, the high rate of growth and the liberal trading climate in industrial countries had accelerated exports of manufactured goods especially from the Newly industrialized Countries (NIC). But, the recession in the late 1970's and protectionist attitudes of the Industrial West reversed this trend again. By 1981, South-South trade had almost returned its earlier peak[24].

A. Trade among the OIC Member Countires and Prospect for Cooperation through Countertrade:

In 1984, the industrial countries accounted for more than two-thirds of the total world trade and conducted 70 percent of their total trade among them-

23 ASTRO Manual 198, op.cit., pp. 10-11.

24 For further information, see S. Lall, "Trade Between Developing Countries", in UNCTAD, Trade and Development (New York, UN, 1985) pp.1-10.

selves. Agin, in 1984, intra-trade among developing and IDB member countries were 30 percent and 10 percent respectively in their total trade. From 1970 to 1984, intra-trade within the IDB member countries has risen from 6 percent to 10 percent of their total foreign trade. In absolute terms, as measuured by exports, the volume of intra-trade was $ 18.4 billion in 1984. In that year, the total trade stood at $ 182.7 billion[25].

On the country level, the share of intra-trade in the total exports and imports of each member country varies not only from one country to another, but also from year to year. Some members, such as Bangladesh, Jordan, Lebanon, Saudi Arabia, Somalia, and Yemen AR are more oriented towards intra-trade in exports while others such as Iraq, Morocco and Yemen PDR are relatively more oriented towards intra-trade in imports. Pakistan and Turkey display somewhat equi-proportional shares in respect of both exports and imports[26].

Historical and traditional ties, geographical proximity, neighbourhood and political relations, change in internal economic policies play a significant role in the emergence of the present pattern of intra-trade in OIC member countries. In addition to these factors, in some cases such as trade relations between Turkey and Islamic countries, the proportionally high level of intra-trade can be attirbuted to **ad hoc** efforts or to bilateral and CT deals by the parties involved.

Trade relation among OIC member countries are at quite a low level when compared to some regional groupings of the developing world in Latin America and Asia. Such a low figure (10 percent) refeects not only the presence of various structural impediments in the expansion of trade among member countries, but it reflects also a lack of concerted efforts to promote intra-trade. Countertrade might be one of the important device to increase further intra-trade relations among the member countries.

As can be seen from the Table-4, the possibilities for cooperation among the OIC member countries in the area of trade are considerable[27]. However, this possibility cannot be realized on a programme based upon trade liberalization among themselves due to following reasons. In a number of high income

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25 IDB, "Tenth Annual Report: 1984-85", (Jeddah, IDB, 1986), pp. 24-26. With the exception of Iran and Nigeria, all the OIC members are also members of IDB.

26 "Ibid".

27 For detailed analysis of the subject see, K. Awan, "Prospect for Cooperation Through Trade Among OIC Member Countries: A Commodity Level Analysis", (Jeddah, IRTI/IDB, 1985), pp. 25-36 and 69-76.

Muslim countries, tariffs are already at a very low level. Opposite is true in most of the low income member countries. Nevertheless, there is still room for concessions with respect to non-tariff barriers, restrictive state trading and CT practices in most of the Muslim countries. Bilateral long-term supply and purchase contracts among STOs would appear to possess the high potential of influencing the growth of trade among Muslim countries. This practice could provide stable and guaranteed markets for exports and assured supplies for imports in Muslim countries.

Long-term bilateral supply and purchase contracts could be modified annually on an **ad hoc** basis according to the specific needs and circumtances of the each country concerned. Thus, this approach will give both stability and flexibility in order to increase trade through CT among the member countries. These long-term trade contracts could represent an importantl supplementary and reinforced instrument for promoting exports from the less developed to more developed of the Muslim countries. As a result, they might contribute to further increase in trade and thereby more harmonious develpment of the OIC members as a whole.

Given this unfavourable external environment, traditional export promotion devices such as subsidies, devaluation and others cannot be always successful in promotion of export. CT may be a better bilateral arrangements in promoting trade between Muslim countries and thus market entry costs and the cost of maintaining a market position can be reduced.

B. Problems of Countertrading in the Member Countries and Recommendations:

Countertrading in many commodities is a very specialized activity that requires a good knowledge off issues involved and a substantial experience in actual trading. Most of the member countries simply do not have the necessary qualified personnel to run CT with maximum efficiency.

This study shows that most of the CT applying member countries do not have a clear and consistent policy formulation either in the form of legislation or guidelines concerning this form of managed trade. In addition, responsibilies of formulation and implementation of CT deals are divided among several ministeres, state agencies and the central Banks of each country, causing uncertainty and delay in clearance of CT proposals.

In order to ease these uncertainties and delays to a minimum level, each Muslim country has to set up a **central CT Coordinating Committee** in which the representatives of Ministers, central Bank, both state and private trading organisations, banking community and others have to be included. The function of the Commitee would be:[28]

28 For further information see, ASTRO-I, pp. Indonesia & Malaysia.

TABLE 4
POTENTIAL EXPORTERS AND IMPORTERS OF AGRICULTURAL COMMODITIES AND MINERALS IN OIC MEMBER COUNTRIES

COMMODITIES	POTENTIAL EXPORTER(S)	POTENTIAL IMPORTER (S)
I. FOOD AND BEVERAGES		
- Live animmals and meat	Mali, Mauritania, Niger Somalia, Sudan, Turkey	Most Arab countries.
- Cereal, cereal production	Pakistan, Sudan, Turkey	Most of the member countries.
- Rice	Egypt, Pakistan	Most of the member countries.
- Raw and refined sugar	Malaysia, Turkey, UAE	Most of the member countries.
- Oil seeds, fats, oils	Benin, Burkina Faso, Egypt, Nigeria, Senegal Sudan, Tunisia, Indonesia, Malaysia, Turkey.	Rest of the member countries.
- Coffee	Algeria, Cameron, Indonesia, Seirra Leone, Uganda	Rest of the member countries.
- Tea	Bangladesh, Indonesia, Kuwait, Tunisia, Turkey, UAE	Rest of the member coduntries.
II. AGRICULTURAL RAW MATERIALS		
- Tobacco	Cameroon, Indonesia, Lebanon, Turkey	Some of the member countries.
- Hide, skins & furskins	Afghanistan, Indonesia, Iran, Nigeria, Somalia, Sudan	Some of the member countries.
- Cotton, Cotton yarn	Burkina Faso, Cameroon, Chad, Egypt, Mali Sudan, Pakistanm Turkey	Rest of the member coduntries.
- Jute, jute products	Bangladesh	All members except Bangladesh.
- Wool	Afghanistan, Pakistan, Syria	Some of the member countries.
III. MINERALS	**ORES AND METALS**	
- Alumina	Guinea, Turkey	Cameroon, Egypt, Bahrain, Indonesia, Iran-
- Aluminium	Cameroon, Bahrain, Egypt, UAE	Algeria, Bangladesh, Indonesia, Iran, Malaysia, Saudi Arabia, Turkey
- Iron ore	Algeria, Mauritania, Sierra Leone	Pakistan, Qatar, Saudi Arabia, Turkey
- Pig iron	Algeria, Egypt, Turkey	Some of the member countries.
- Crude steel	Algeria, Egypt, Indonesia, Tunisia, Qatar, Turkey	Some of the member countries.
- Rock phosphate	Algeria, Jordan, Morocco, Senegal, Tunisia, Syria	Indonesia, Malaysia, Pakistan Turkey.
- Tin ore, tin metal	Indonesia	Malaysia, Egypt, Turkey

SOURCE: Based on information gathered from UNCTAD, **Yearbook of International Commodity Statistics, 1985** (New York, Un, 1985); and UNCTAD/GAT(ITC)," Handbook of State Trading Organizations of Developing Countries", (New York, UN, 1985).

- to formulate CT policies on behalf of the government and private sectors,

- to issuue guidelines for the policy implementation of CT,

- to monitor its implementation and to work as an advisory board,

- to collect and distribute information on CT offers to both private and state trading organizations, without entering actual CT transactions on its own account (see the case of Malaysia),

- to issue differentiated CT requirements with respect to the competitiveness of the export goods involved, so that the objective of product diversification in the country's export could be realized.

CT deals between Turkey-Iran and Turkey-Iraq are usually worked out in an atmosphere of political as well as economical cooperation since these deals have been decided by direct negotiations between the respective governments. In practice, CT deals do not enter into detailed product-by-product negotiations, but they rather negotiate globally the annual total value of the trade package offered by one country to another. Both STOs and private companies are the vehicle of implementation and coordination of the imports from and the exports to the other country.

In most of the CT applying countries, there are no instructions as to the percentage of the country's import that should be covered by CT. In general, CT of less than 50 percent of the import may suffice when a market can be opened for the country's manufactured goods, but higher percentage will be asked for if primary products have to be given away by the country. The rates are usually determined on a case-by- case basis. Since 100 percent import requirement is the rare case in CT agreements, in general, settlements of CT deals have been finalised partly in kind and partly in hard currency.

In general, determination of CT goods and commodities, and countries has been based on the following prerequisites. These are:[29].

- that CT shall involve goods that are not readily marketable in the import supplying countries.

- that CT in commodities shall be with countries that face foreign exchange problems, and has trade surplus with the country.

- that CT is not to be carried out with countries in which country's products do not face entry and marketing problems.

- goods to be imported into the country as exchange shall be those goods that are not sufficiently produced or not produced at all in the country.

29 Ibid.

- major government industrial and infrastructure projects, and main public import items shall be used as leverage to obtain CT commitments from potential foreign suppliers of commodities, manufactured goods and know-how to the country.

Experience of Muslim countries indicates that CT is encouraged in specific circumstances which prevent conventional trade in which there is no conditional link between imports and exports. Thus, CT is not a substitute for but rather a supplement and/or compliment to conventional forms of trade.

To promote economic and financial co-operation among the OIC member countries, CT can also be used as an additional instrument within the broder set of mechanisms to design the reorientation of trade in favour of certain Muslim countries or regions. For this purpose, at the OIC level, in co-operation with UNCTAD, a study on the potential of CT in Muslim countries is needed in order to clarify the opportunities which this mechanism might provide for the development of trade among the member countries. Some provisions enabling compensated trade agreements among Muslim countries can then be fornulated at the regional or subregional level.

PART-IV

SUMMARY AND CONCLUSIONS

PART-IV

SUMMARY AND CONCLUSIONS

a) Summary

Since late 1970's, in the world trade, there has been a noticable trend towards bilaterism in the form of different countertrade (CT) arrangements in response to the global recession due to first and second oil shocks, and historically high level of real interest rates and a growing protectionist trend in industrialized countries. Terms of trade of most of the non-oil-exporting developing countries also deteriorated sharply during the first part of 1980's. All of these unfavourable external economic developments have served to aggravate the chronic balance of payments difficulties in many developing countries and their debt service burden.

Balance of payment of most of the oil-producing developing and Muslim countries have been also adversely affected by the crude oil glut of 1982-87. Their oil revenues have fallen considerably owing to decline in their exports which led to the curtailment of their development targets and projects.

Currently, in consequence of the above mentioned unfavourable combined factors, nearly every developing country is facing very tight balance of payments. This situation caused initiation of a policy of CT instruments in many of the developing countries including the oil producing ones.

The main purpose of this research was, without a detailed study of the theoretical aspects of CT arrangements, to examine the recent developments in CT policies and practices with special reference to the selected OIC member countries, and finally to explore the implications that those arrangements may have to further economic cooperation among them.

The term "Countertrade" which has only recently entered the literature of international trade, originated in the East-West trade. It is a modern version of barter trade. Mostly, it appears as a quasi-barter and most of the CT settlements involve cash payments. Countertrade has a variety of forms. There are four conventional types (classical barter, compensation, counterpurchase arrangements and buy-back arrangements) and two non-conventional forms (advance purchases and offset deals) of countertrade. Any type of CT requires a conditional link between exports and imports, but this requirement is not always necessarily attained at approximately equal values.

Barter is the oldest form of countertrade. It invvolves a mutual and direct exchange of goods between partners without any financial payments and barter commission. In other words, it is the bilateral exchange of goods and services of equivalent monetary value. Under such transactions, a partner cannot transfer his commitment to a third party.

Under a compensation arrangement, the seller (exporter) of a product; service of technology takes full or partial payment in the form of a product or in kind. The purchase agreement is combined with the sale in a single contract. Full compensation deals are similar to classical barter arrangements with two important differences. Firstly, the partners invoice their deliveries but the invoice values are merely entered into a mutual commmpensation account with settlement of balance (in foreign exchange or kind) in contracted intervals. Secondly, in general, the exporter transfers the purchasing commitment to a third party, who may be the end-user of the product or a trading agency.

Counterpurchase arrangement- also called parallel transactions, counterdelivery, reciprocal trade-links the value of exforts to the value of imports ranging from 5 percent to over 100 percent of the original export order. The initial exporter must buy goods and services from the original exporter's product line.

Under a buy-back arrangement, the seller (exporter) of a plant, equipment and/or technology agrees to accept for his deliveries in exchange for payment in products extracted or manufactured with the equipment of turn-key plant he has supplied. The key rule for the turnkey sales contract is that the sale of plant and technology should always be concluded separately from the buy-back commitment. Buy-back deals generally differ from counterpurchase transactions in that the sums involved are much larger and the contract period longer, usually between five and tewenty years.

Advance purchases represent an inverted version of counterpurchase commitments. The foreign supplier asks for advance payment in kind rather than supplying his equipment first and waiting for paymment until the countertrade goods have been shipped and sold. In fact, advance purchases are made by a supplier in good faith that the exporter of the advance-purchased goods will subsequuently order (counterpurchase) a corresponding amount of equipment and services from him. Another forms of advance purchases are collateral and warehousing.

Offset deals are usully concluded upon governmental initiative for imports of military equipment and hardware, commercial aircraft and infrastructural development projects such as the construction and installation of airports, power station and communication systems. The offset-bound supplier commits himself to generate a certain amount of hard currency to help the offset-demanding government (importer) pay for his prime purchases and/or the supplier is supposed to invest in the importing country and agrees to purchase components for these goods and other related or unrelated products from that country.

For non-oil exporting developing countries, foreign exchange shortages is perhaps the main reason for the use of CT deals increasingly. However, liquidity problem cannot be the only motivating factor that encourages employment of CT. For example, some Muslim countries, namely Indonesia, Malaysia and Saudi Arabia are practicing upon CT in spite of their strong hard currency reserve holdings. By linking trade flows, these countries are aiming to achieve diversification of their foreign trade structure in both product and geographical term. At the same time, they are trying to reduce the geo-political risks of their foreign trade.

Emstimates of the magnitute of CT varies from 10 to 40 percent of the world trade, depending upon the definition of CT used. When above mentioned both conventional and non-conventional types of CT mechanisms which excludes bilateral trade, are included, it is estimated by Helmut Ferenz, the UNCTAD consultant, that CT transactions accounted for $ 550 billion or 27.6 percent of the world trade ($ 2,000 billion) in 1984. For Muslim countries, this percentage probably reached to 25 percent in 1984. According to ASTRO, counterpurchase deals accounted for 55 percent of all the CT transactions in the world. The usage of each of barter, buy-back and offset deals is around 15 percent.

As of June 1986, 22 countries have enacted CT legislation, 72 countries have CT directives, and in 118 countries CT demanded by individual companies. In OIC member countires, CT legislation enacted in 5 countries, namely Indonesia, Jordan, Malaysia, Saudi Arabia and Syria and 17 of them have CT directives and in 24 countries individual companies are demanding CT in their foreign trade transactions (For further information, see Appendix-I of this study).

This research clearly shows that CT as a commercial practice has gained wider acceptance during he 1980s. The lack of foreign exchange, the debt crisis and inadequate marketing capabilities are the main reasons motivating most of the developing countries to impose CT arrangements.

The main problems encountered in any discussion on CT is the absence of any internationally binding or accepted classification and terminology for the various types of CT arrangements. It is important to note that CT is not trade without money. With the exception of classical barter, which is now extremely rare, CT consists of both financial and trading transactions. The goods are valued in monetary terms and each contract results in a commitment to pay irrespective of the performance of the other contract. Even though the two contracts (primary and CT contract) are linked through a protocol, individually each transaction is a straightforward export sale which enables the exporter to utilize the most effective form of financing available such as subssidized export credit and finance.

Recently, many developing countries have concluded CT deals with private firms in industrial countries and/or state trading firms in Eastern European countries in order to save foreign exchange. By linking an import to a corresponding export, these countries aimed at promoting exports of primary and manufactured products, crude oil and facilitating the transfer of technology. In some instances, certain oil exporting countries such as Iraq and Libya are entering into CT arrangements for the servicing of their external debts.

For Eastern European countries CT deals are often seen as a means of stimulating the inflow of technology from the Western countries, reducing the uncertainties in exports, meeting the import requirements of their domestic production and achieving balance of bilateral trade. For industrial countries CT may in some cases present the only means to guarantee payment for manufactured goods and services (including technology) delivered, or to overcome protective trade barriers.

In fact, mandatory CT arrangements probably drain foreaign exchange rather than saving by increasing transaction costs and reducing competition, so that a country pays more for its imports and receives less for its exports. Because, the CT deals involve complicated multiparty transactions in unfamiliar products and markets and thereby tend to increase the costs of trade, as additional risks which are not usually present in normal bank-financed foreign trade (conventional financing) must be covered.

Developing countries with hard currency problems often used buying power of their state trading organizations (STOs) for the promotion especially of their non-traditional exports through CT deals. However, their capabilities and experiences in this complex, expensie and risky method of trading field are rather limited. Unfortunately, the overwhelming majority of developing countries, including OIC members, have not yet fully mastered the mechanics of CT. For most of these countries, CT is still in its infacy and the experiences and skills currently are mainly in the hands of developed countries. Because, countertrading in many commodities is a very specialized activity that requires a good knowledge of issues involved and a substantial experience in actual trading. Most of the member countries simply do not have the necessary qualified personnel to run CT with maximum efficiency.

b) The Future Prospects of CT in the World and Among OIC Members

During the mid-1980s, even though inflation has diminished and a worldwide recession has been avoided, the world economy still still faces growing uncertainty due to persistent current account imbalances and a slowdown in the growth of production and trade in many developed and developing countries. In addition most of the developing countries are highly indebted and middle-income countries have suffered significant falls in per capita income.

In developed countries major problems such as high real interest rates, declining investment rates, volatile exchange rates, growing current account imbalances, rising protectionism and high unemployment in Europe are still in existence as a result of a direct consequence of the continuous lasting divergence in the macroeconomic policies of the leading industrial countries.

For developing countries, including the OIC members, the economic out-look remains bleak, especially for those with heavy debt burdens. Moreoever, inspite of considerable stablization and adjustment efforts, the unexpected deterioration in the external economic environment, such as slower growth in world trade, falling commodity prices, reduced access to foreign markets, and the worsening in the availability and cost of external finance, has reduced the economic policy successes of many of them.

According to recent forecasts of the World Bank Publications, the unfavorable external environment facing developing countries is expected to persist at roughly its present level at least until mid-1990s. Thus, the constraints in the international market would remain and the willingness of both exporters and importers to search for further CT deals would continue in the near future.

In fact, except for barter, most of the CT deals involve some sort of foreign investment and/or foreign trade financing. It is then reasonable to assume that the desire to use CT arrangements by developing countries in general and OIC members in particular are expected to continue whether or not world economy will be adjusted in the future.

c) Proposals for OIC Members and Conclusions

Recently, in the Western world, an ever increeasing number of trading houses (companies) and banks are organizing themselves for CT transactions and actively engaging in this type of trade. They are operating according to functional, product and geographic specialization. They usually have a wide knowledge of dealing a variety of products with respect to their product and geographic specialization. They have already established their sales network for countertrade goods. Due to complexity of CT deals, the developing countries are becoming increasingly dependent on these intermediaries for the marketing of their exports of CT goods. In order to assist exporters of the Muslim countries with the selection of an international trading house or agent for their CT deals, an alphabetical list of these intermediaries is included in Appendix-II of this study.

This study shows that most of the CT applying member countries do not have a clear and consistent policy formulation either in the form of legislation or guidelines concerning this form of managed trade. In addition, responsibilities of formulation and implementation CT deals are divided among several ministers, state agencies and the Central Banks of each country, causing uncertainty and delay in clearance of CT proposals.

In order to ease these uncertainties and delays to a minimum level, each Muslim country has to set up some sort of **CT coordinating body** in which the representatives of Ministers, Central Bank, both state and private trading organizations, banking community and others have to be included. This proposed institution could be either a private sector organ, or a mixed public and private sector organ and could take the shape of a trading house, CT Committee or Council which is suitable to the economic structure of the country.

In most of the CT applying Muslim countries, the role of the intermediaries are very important for successful CT management since they have the experience and expertise in trading and they facilitate the task as well as responsibility of country's companies in buying and marketing goods imported under CT arrangements.

In principle, counterexports should go to the market where from the CT bound import has been made. However, the disposal of CT goods in third countries may be permitted if there are no, or only insignificant direct economic ties between the two countries and the target markets.

By accepting higher prices for imported goods and raw materials for the same amount of exported commodities CT becomes an alternative to an explicit subsidy, devaluation and discounting without violating the existing IMF and GATT rules. Because, this kind of discounting is not within the coverage of the present guidelines of these institutions.

There is also another internal problem for the success of CT arrangements in developing countries. For example, many of the CT applying Muslim countnries can not provide sufficient amount of CT goods required, or not at prevailing world prices, then the CT obligations may be revised and the legal minimum purchase period modified (see Indonesian case).

When the country obliged to assign CT commitments to large local or foreign trading houses and swich dealers, it has not been easy to determine the final destinations of exports under these counterpurchase arrangement. There is so far no effective mechanism for determinig the additionality of exports in terms of destination or product range.

The recent experience of some Muslim countries engaged in CT shows that **large private trading** houses are more advantageous than medium-sized firms and STOs to fulfil CT commitments. Because, only trading houses of large private firms have the financial resources and marketing skill and network to take over these obligations.

In Muslim, world, whenever large-scale CT projects accur, one of the parties to the deal is a government agency which equalizes bargaining power where multinational corporations are involved, or facilitates coordination of the two parts of the CT transactions.

Due to heavy government involvement in CT activities, Muslim countries can easily establish a **regional CT clearing house,** and **an information center** which can collect and distribute information on CT activities and the type of CT goods which are available in the member countries. To this end, IDB may organize periodic **CT opportunity exploring meetings** among the authorized representatives from the concerned member countries in order to find out the best bidders among them.

To promote economic and financial cooperation among the OIC member countries, CT can also be used as an additional instrument within the broader set of policy mechanisms, to design and re-orient trade in favour of certain Muslim countries or regions. For this purpose, at the OIC level, in co-operation with IRTI/IDB and the International Trade Centre (ITC) of UNCTAD/GATT **a study on the potential of CT in Muslim countries** is needed in order to clarify the opportunities which this mechanism might provide for the development of trade among the member countries. Because, in both theory and practice, this subject is still at its developing stage. Some guidelines enabling compensated trade agreements among Muslim countries can then be formulated at regional or sub-regional levels.

Within the OIC level CT deals may be increased in a variety of forms:

-Member countries should begin to push **intra-regional CT arrangements** in addition to their bilateral trade agreements. Trade among some of the member countries might be supported by government-to government barter or inter-corporate counterpurchase arrangements. Trade with industrialized countries. hoever, might be increased through buy-back or offset deals by the OIC member countries.

-CT agreements may be negotiated togetyher with **favorable non- tariff treatrement** through commercial agreements. Such agreements may be particularly attractive to complementary industrial sectors especially in more developed member countries.

- *The recent Latin American Integration Associatino (LAIA) experience shows that the other potential way to improve cooperation and trade is to include a compensation agreement in* **an Economic Complementation Agreements** *in which the large variety of products involved allow different industrial activities to complement each other, leading to joint venture, subcontracting and coproduction. The use of compensation agreement could be increased by giving preferential tariff treatment to goods traded through that system.*

Compensation agreemnets might be supported by financial aids and the different levels of CT obligations may be negotiated for each member country with respect to its stage of economic and industrial development. Production and export capabilities of each country have to be considered during the negotiation of the CT abligation levels in order to achieve the optimum compensation possible. For example, a member country was impose a higher percentage of CT obligation on a developed member (e.g. 90-100 %) and lower CT obligation on a less developed member country (around 50 %).

- It can be also suggested that the import of goods and/or services by the public sector of each member country, including state-owned corporations, should be introduced into CT possibilities. The OIC Secretariat should try to develop **preferential treatment for public acquisitions** from the member countries. As several member countries have been using counterpurchase or buy-back to pay totally or partially for big projects, it may be possible that preferential treatment for OIC members may include lower levels of CT obligations.

In short, state companies might use CT as a good marketing tool in order to sell goods and/or services to the public sector in OIC member countries. Buy-back operations may be a more suitable instrument for that purpose. Because, on the import side, the greatest volume of CT purchases have been effected by state companies or STOs often involving the purchase of oil and military equipment. In developing countries in general, Muslim countries in particular, CT policies and practices are at an embryonic stage and the government agencies involved are still learning how to implement them effectively.

In recent years, some Muslim countries such as Indonesia, Malaysia, Saudi Arabia and Turkey have explored the possibilities of countertrading their respective buying power with a view to generating exports through CT deals.

Turkey's trade relation between Iran, Iraq and Libya clearly shows that CT can be used as a valuable instrument to increase economic co-operation between Muslim countries. Turkish experience also shows that increase in economic co-operation might result in further inprovement on political and social interaction among the OIC member countries.

As a result, couuntertrading may prove more suitable device than traditional trade policy instruments for the effective reorientation of trade flows among OIC members. Because, manipulations and implementations of traditional trade policy instruments are subject to various external bureacratic interventions and internal legal procedures. CT practices are only subject to internal bureaucratic interference.

In short, in the present world economic order, co-operation among Muslim countries through CT deals may permit greater specialization and economies of scale and an additional medium term strategy for international marketing. But it can not resolve the problem of incompetitivenss of these countries in the long run. Besides, in general, we have to know that success of an export promotion depends on production and marketing of right products at the right prices in the right places at the right times. We have also to remember that countertrade is neither a panacea nor an all encompassing remedy for all, but it can be an important instrument for further economic co-operation among the OIC members. As a result, **CT can not be considered as a subsitute for traditional trade** but it is regarded as an **additional trading arrangement** to complement existing trading practices.

APPENDIX TABLES AND BIBLIOGRAPHY

APPENDIX TABLES
AND
BIBLIOGRAPHY

APPENDIX-I

WORLD-WIDE SPREAD OF CT

The following synopsis shows the countries where CT legislation, directives, or individual company's demands have been encountered or will be accepted (as of June 1986).

Caption:

CTL	CT Legislation enacted
CTLE	CT Legislation Expected shortly
CTD	CT Directives
CTIC	CT demand by Individual Companies
CTA	CT demand by foreign buyers Accepted
CTP	CT Prohibited

	CTL	CTLE	CTD	CTIC	CTA	CTP
Afghanistan	no	no	no	yes	no	no
Albania	no	no	yes	yes	no	no
Algeria	no	yes	yes	yes	no	no
Andorra	no	no	no	no	no	no
Angola	no	yes	yes	yes	no	no
Antigua and Barbuda	no	no	no	no	no	no
Argentina	yes	no	yes	yes	yes	no
Australia	yes	no	yes	yes	yes	no
Austria	no	no	yes	yes	yes	no
Bahamas	no	no	no	no	no	no
Bahrain	no	no	no	no	no	no
Bangladesh	no	yes	no	yes	no	no

	CTL	CTLE	CTD	CTIC	CTA	CTP
Barbados	no	no	no	yes	no	no
Belgium	no	no	no	no	yes	no
Belize	no	no	no	no	no	no
Benin	no	no	no	yes	no	no
Bermudas	no	no	no	no	no	no
Bhutan	no	no	no	yes	no	no
Bolivia	yes	no	yes	yes	no	no
Botswana	no	no	no	yes	no	no
Brazil	no	yes	yes	yes	yes	no
Brunei	no	no	no	no	no	no
Bulgaria	no	no	yes	yes	yes	no
Burkina Faso	no	no	no	yes	no	no
Burma	no	yes	no	yes	yes	no
Burundi	no	yes	no	no	no	no
Cameroon	no	no	no	yes	no	no
Canada	no	no	yes	yes	yes	no
Cape Verde	no	no	no	no	no	no
Cayman Islands	no	no	no	no	no	no
Central African Republic	no	no	no	no	no	no
Chad	no	no	no	no	no	no
Chile	no	no	yes	yes	no	no
Colombia	yes	no	yes	yes	yes	no
Comoros	no	no	no	no	no	no
Congo	no	no	yes	yes	no	no
Costa Rica	yes	no	yes	yes	no	no
Cuba	no	yes	yes	yes	no	no
Cyprus	yes	no	yes	yes	no	no
Czechoslovakia	no	no	yes	yes	yes	no
Denmark	no	no	yes	no	yes	yes
Djibouti	no	no	no	no	no	no
Dominica	no	no	no	no	no	no
Dominican Republic	yes	no	yes	yes	yes	no
Ecuador	yes	no	yes	yes	no	no
Egypt	no	yes	yes	yes	yes	no
El Salvador	no	no	yes	yes	no	no
Equatorial Guinea	no	no	no	yes	no	no
Ethiopia	no	yes	yes	yes	no	no
Fiji	no	no	no	no	no	no
Finland	no	no	no	yes	yes	no
France	no	no	no	no	yes	no
French Antilles	no	no	no	no	no	no
French Guyana	no	no	no	no	no	no

	CTL	CTLE	CTD	CTIC	CTA	CTP
Gabon	no	no	no	yes	yes	no
Gambia	no	no	no	no	no	no
German Democratic Rep.	no	no	yes	yes	yes	no
Ghana	no	no	yes	yes	no	no
Gibraltar	no	no	no	no	no	no
Greece	no	no	yes	yes	yes	no
Grenada	no	no	no	no	no	no
Guadeloupe	no	no	no	no	no	no
Guatemala	no	no	yes	yes	no	no
Guinea (Bissau)	no	no	yes	yes	no	no
Guinea (Conakry)	no	no	yes	yes	no	no
Guyana	no	no	yes	yes	no	no
Hati	no	no	no	no	no	no
Honduras	no	no	yes	yes	no	no
Hong Kong	no	no	no	yes	yes	no
Hungary	no	no	yes	yes	yes	no
Iceland	no	no	no	yes	yes	no
India	no	no	no	yes	yes	no
Indonesia	yes	no	yes	yes	yes	no
Iran	no	no	yes	yes	no	no
Iraq	no	no	yes	yes	no	no
Irish Republic	no	no	no	no	yes	no
Israel	yes	no	yes	yes	yes	no
Italy	no	no	no	no	yes	no
Ivory Coast	no	yes	yes	yes	no	no
Jamaica	no	no	yes	yes	no	no
Japan	no	no	no	yes	yes	no
Jordan	yes	no	yes	yes	yes	no
Kampuchea	no	no	no	yes	no	no
Kenya	no	no	yes	yes	no	no
Kiribati	no	no	no	no	no	no
Kuwait	no	no	no	no	no	no
Lao Democratic Rep.	no	no	no	no	no	no
Lebanon	no	no	no	yes	yes	no
Lesotho	no	no	no	no	no	no
Liberia	no	no	no	yes	no	no
Libya	no	no	yes	yes	no	no
Liechtenstein	no	no	no	no	no	no
Luxembourg	no	no	no	no	yes	no

	CTL	CTLE	CTD	CTIC	CTA	CTP
Macao	no	no	no	no	no	no
Madagascar	no	no	yes	yes	no	no
Malawi	no	no	no	yes	no	no
Malaysia	yes	no	yes	yes	yes	no
Maldive Islands	no	no	no	no	no	no
Mali	no	no	no	yes	no	no
Malta	no	no	yes	yes	yes	no
Martinique	no	no	no	no	no	no
Mauritania	no	no	no	yes	no	no
Mauritius	no	no	no	no	no	no
Mexico	no	no	yes	yes	yes	no
Monaco	no	no	no	no	yes	no
Mongolia	no	no	yes	yes	yes	no
Montserrat	no	no	no	no	no	no
Morocco	no	yes	yes	yes	no	no
Mozambique	no	no	yes	yes	yes	no
Namibia	no	no	no	no	no	no
Nauru	no	no	no	no	no	no
Nepal	no	no	no	yes	no	no
Netherlands	no	no	no	yes	yes	no
Netherlands Antilles	no	no	no	no	no	no
New Zealand	yes	no	yes	yes	yes	no
Nicaragua	yes	no	yes	yes	no	no
Niger	no	no	no	yes	no	no
Nigeria	no	no	yes	yes	yes	no
North Korea	no	no	yes	yes	yes	no
Norway	no	no	no	yes	yes	no
Oman	no	no	no	no	no	no
Pakistan	no	yes	yes	yes	yes	no
Panama	no	no	no	no	no	no
Papua New Guinea	no	no	no	no	no	no
Paraguay	no	no	no	yes	yes	no
People's Rep.of China	no	no	yes	yes	yes	no
Per	yes	no	yes	yes	no	no
Philippines	no	no	yes	yes	yes	no
Poland	no	no	yes	yes	yes	no
Portugal	no	no	yes	yes	yes	no
Puerto Rico	no	no	no	yes	yes	no
Qatar	no	no	yes	yes	no	no
Réunion	no	no	no	no	no	no

	CTL	CTLE	CTD	CTIC	CTA	CTP
Rumania	yes	no	yes	yes	yes	no
Rwanda	no	no	no	no	no	no
San Marino	no	no	no	no	no	no
So Tomy Principe	no	no	no	no	no	no
Saudi Arabia	yes	no	yes	yes	no	no
Senegal	no	no	no	yes	no	no
Seychelles	no	no	no	no	no	no
Sierra Leone	no	no	no	yes	no	no
Singapore	no	no	no	yes	yes	no
Solomon Islands	no	no	no	no	no	no
Somali Republic	no	no	no	yes	no	no
South Africa	no	no	no	yes	yes	no
South Korea	yes	no	yes	yes	yes	no
Spain	no	no	yes	yes	yes	no
Sri Lanka	no	yes	no	yes	no	no
St Christopher & Nevis	no	no	no	no	no	no
St Lucia	no	no	no	no	no	no
St Pierra & Miquelon	no	no	no	no	no	no
St Vincent	no	no	no	no	no	no
Sudan	no	no	no	yes	no	no
Suriname	no	no	no	yes	no	no
Swaziland	no	no	no	no	no	no
Sweden	no	no	no	yes	yes	no
Switzerland	no	no	yes	yes	yes	no
Syria	yes	no	yes	yes	no	no
Taiwan	no	no	no	yes	yes	no
Tanger	no	no	no	no	no	no
Tanzania	no	no	yes	yes	no	no
Thailand	yes	no	yes	yes	yes	no
Togo	no	no	no	no	no	no
Tonga	no	no	no	no	no	no
Trinidad & Tobago	no	no	no	yes	yes	no
Tristan da Cunha	no	no	no	no	no	no
Tunisia	no	no	yes	yes	no	no
Turkey	no	no	yes	yes	yes	no
Turks & Caicos Islands	no	no	no	no	no	no
Tuvalu	no	no	no	no	no	no
Uganda	no	no	no	yes	no	no
United Arab Emirates	no	no	no	yes	yes	no
United Kingdom	no	no	no	no	yes	no
Uruguay	yes	no	yes	yes	yes	no
USA	no	no	no	yes	yes	no

	CTL	CTLE	CTD	CTIC	CTA	CTP
USSR	no	no	yes	yes	yes	no
Vanuata	no	no	no	no	no	no
Venezuela	no	yes	yes	yes	yes	no
Vietnam	no	no	yes	yes	yes	no
Virgin Islands	no	no	no	no	no	no
Wallis and Fortuna Islands	no	no	no	no	no	no
West Germany	no	no	no	yes	yes	no
Western Samoa	no	no	no	no	no	no
Yemen Arab Republic	no	no	no	no	no	no
Yemen Democratic Rep.	no	no	no	yes	no	no
Yugoslavia	yes	no	yes	yes	yes	no
Zaire	no	no	no	yes	no	yes
Zambia	no	yes	no	yes	yes	no
Zimbabwe	no	no	yes	yes	yes	no

Source: ASTRO, **Complimentary Manual of Comprehensive Reference Service on Countertrade** *(Ljublijana, Yugoslavia, ASTRO, 1985) pp Survey 1-8.*

APPENDIX-II

LIST OF TRADING HOUSES

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Alcon (Compensation Trading) Ltd	4 Audley Square London SWIY 5DR U K. Tel (01) 499-2591/2	P. Jankovic	Not available	Countertrade operations on behalf of client	All products considered	Worid-wide	
Allgemeine Finanz-udd-Waren-Treuhand AG	Schottenring 12 A-1013 Vienna Austria Tel (0222) 6n33-606n0	Dr A Waldstein	Capital Schilings 50 M Employees 40	Internediary services in international trade. including countertrade. turnkey projects. forfeiting swich transactions. export leasing	Chemicals. metals. ores. wood. pulp. paper. cardboard. food products. oil other products also considered	No territorial limitation. but special links to Romania through joint ownership, with Terra (Bucharest) of Trawe S.A. (Geneva) a firm providing specialized financial services	Wholly owned subsidiary of Creditanstalt Bankwerein of Vienna Representative office in Cairo
Andre & CIE SA	7. ch. Messidor CH-1000 Lausanne Switzerland Tel 201-111	Not available	Not available	International trade services. including promotion of industrial projects. joint trading operations. short and long-term financing swich and barter operations	Agricultural products grain vegatable oils. soya and sunflower seeds. coffee, tea. rice processed foods fodder textiles industrial products: machine tools	All parts of Europe and many other areas of the world	Privately ownned trading house Branch office in FRG (Bad Soden)

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Anglo-Austrian Trading Co Ltd	10 Haymarket London SW1Y 48G U.K. Tel (01) 839-4161	K. Stern J.G. Baer	Value of turnover: 34 M (1984) Employees .25	Countertrade operations	Chiefly chemicals. but other products (except machinery accepted)	GDR. U.S.S.R	Company established in 1946
Arcode Ltd	City Gate House 39/45 Finsbury Sq. London EC2A 1PX U.K. Tel. (01) 638-8585	A.J. Adrews	1980 sales turno-ver in excess of 3 M phounds	Consultation services. liquidation of countertrade goods	Chemicals and other industrial products	Romania	Subsidiary of Chimiport-export (Bucharest) Markets Romanian industrial goods in U.S. and treland
Balag AG	Lindwrumstrasse 11. D. 8000 Munich 2. FRG Tel 236-051	Dr. Peter Alojov	Not available	International trade services. including countertrade. swich operations. financing	Imports of foodstuffs. cotton. yarns raw textiles. electric motors. transformers. other industrial goods wood products. glassware	All countries of Eastern Europe	Privately owned trading house Subsidiaries in Luxebourg. Munich
Bank of Boston International	767 Fifth Ave New York. N Y U.S.A 10153 Tel (212) 350-0785	David S Cookson	Not available	Countertrade consultancy and advisory services	All products	World-wide	Backed by First National Bank of Boston Has initiated system of generalized countertrade credits

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Berliner Absatz Organisation (BAO)	Hardenbergstrasse 16/18. D.1000 Berlin 12 West Berlin FRG Tel. 30 31801	Not available	Not available	Promotion of East-West trade including countertarde advisory services maintains active list of several hundred Berlin firms providing some form of counterttrade service	Not applicable	All Eastern European countries	BAO operates under the aegis of West Berlin Chamber of Commerce
The Bowater International Trading Co	14 Grosvenor Place. London SW1 7HH. U.K. Tel. (01) 235-0111	T.G Atipas	Not available	All forms of countertrade	Wide range of products covered (industrnal products. consumer goods. foodstuffs. ships)	In Eastern Europe. Bulgarie. USSR. Hungary. Romania. Yugoslavia	Wholly-owned subsidiary of Ralli Brothers Ltd. a member of the Bowater Group
Centro internationale Handelsbank AG	Tegetthoffstrasse 1. A-1015 Vienna Austria Tel (0222) 524-5100	Dr G. Vogt	Capital Schilings 168 M Employees 64	Banking and commercial including countertrade Also projecttracing. swich transactions forleiting syndication. Trades on own account	Chemicals metals ores. crude oil, phosphates food products All products considered	No territoral limitation but has concluded an evidence account agreement with the Romanian Ministryof Foreign Trade and internatinol Economic Cooperation	Owned by Bank Handlowwy w Warszawi (Poland) in partnership with Austrian and other Western banks

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Coe & SOA	Via Martin Piaggio 17 I-16122 Genoa Italy Tel. (010) 54-891	Jack Clerici President Aldo Carmiganani	Capital 25B Lira	International trade including courtert-rade on own account	Raw materials of Soviet origin coal coke metals oil products chemical products agricultural produce	U.S.S.R	Subsidiaries in Lausanne Milan New York Maintains permanent office in Moscow
Compagnia Generale Inetrschambi SOA (COGIS)	Corsa Venezia 54 Cas. Post 10176 I-20121 Milan Italy Tel (02) 7742	Dino Gentili	Capital 1.088 Lira	Consulting services including market research preparation of studies international trade including liguidationl of counter-trade obligations of clients through own channels	Minerals metals timber foodstuffs. textiles chemicals machinery and equipment	Eastren Europe (esp. GDR. Poland U.S.S.R) and developing countries	Backed by major Italian firms. including Fiat/RIV-SFK. Montedison/Snia Viscosa
Comex Aussen handelsgesellschaft mgH	Immermanns trasse 40. D-4000 Dusseldorf FRG Tel 36-171	Not available	Not available	International trade including conduct of countertrade operations	Iron and stell and related products. machinery and equipment for various industries	Eastern Europe but especially Romania	Maintains representative offices in Bucharest and Sofia
Contrade Services Corp	One State Street Plaza New York. NY. USA 10004 Tel (212) 248-7800	Barry F Westfall	Not available	Provides financing for counterrade and other non-traditional forms of international trade	None	None	

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
CSI international Corp	800 Second Ave New York. N.Y USA 10017 Tel (212) 687-5600	William D Schachter	Not available	Countertrade services including liquidation of counter-trade obligations	Consumer goods and services	None	
Deefield Communications Corp	210 East 39th St. New York. NY USA 10016 Tel (212) 685-0066	Fred B Tarter. President	Average sales turnover in excess of $ 100 M	Liquidation of countertrade obligations	Especially consumer goods	None specified	International operations linked to large-scale domestic barter services
Dreylus Hersctel & Cie	3. avenue du Coq F-75009 Paris France Tel 280-6166 874-0745	Not available	Not available	Performance of countert-rade operations for client firms	Chemicals agricultural products foodstuffs consumer goods	Eastern Europe but chieffy Poland USSR	
F J Elsner & Co	Kohirnat II A-1010 Vienna Austria Tel (0222) 526-771 111-949	Dr W Ambichi	Employees 16	Agency and countertrade services	All products. but especially foodstuffs and food raw materials. hardware house and garden ulensils	Eastern Europe	Majority interest in firm held by Genossenchafliche Zentralbank AG (Vienna) Branch offices in innsbruck Hong Kong and Singapore

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Evidenzbuor fur Aussenhandels-gechafter (EFAG)	Brucknerstrasse 4. A-1040 Vienna Austria Tel (0222) 651-306655-131	Friedrich Hartig	Not available	Provides advice arranges contacts pools the interest of members with respect to counter trade and swich operations	All products	Eastern Europe	Co-founded as non-profit organization by Austrian Federal Chamber of Commerce Ministry of Trade and Industry and Association of industrialsit
Eurintrade	3.rue Monloyer B-1040 Brussels Belgium Tel 513-68 26	Not available	Not available	International trade including counter-trade on own account	Plant equipment. other manufactured goods. technical know-how metals chemicals	USSR and Poland	Jointly owned by interocean SA (Belgium) an affiliate of the Bangue Lambert and Commercial Metals Company (USA) Maintains representative office in Moscow
Fendrake Ltd	P O Box 560 2 0 Fendchurch St London EC3P 3 DB UK Tel. (01) 623-8000	J.P Burge	Not available	Acts as principal or agent in countertrade transactions related financign consultation and advisory services	Wide range of commodities	Eastern Europe Far East. Middle East and North Africa	Subsidary of Kieinwort Benson Group with links to Centrobank (Austria)

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Frank Kirchfeld Gmbh KG	Breite Strasse 3 D-4000 Dusseldorf. FRG Tel 83-981	Not available	Not available	International trade including counter-trade on own account	Machine tools plant construction transport equipment shipbuilding	Romania Poland Czezhoslovakia Hungary	Backed by Gutehoffnungs hutte Group (FRG)
M Golodetz (Overseas Ltd)	Aldwych House 71/91 Aldwch London WC2B 4 HN UK Tel (01) 242-8888	L J A Simmons	Not available	Acis as principal or agent in countertrade transactions also arranges exhibitions sysmosia technical visits	Mainly chemicals plastics. machine tools electric motors steel foodstuffs	U.S.S.R	Member of large international Golodelz trading group maintains representative office in Moscow
Greficomex	27 rue de Lisbonne F-75008 Paris France Tel 359-0453	Not available	Not available	Disposal of countertrade goods	Foodstuffs but no product limitaion	Eastern Europe especially GDR. Poland and Romania	Backed by Credit Lyonnnais (France) and Lissauer Group (USA)
Honeywell High-Tech Trading	Honeywell Plaza Minnepolis Minn USA 55408 Tel(612) 870-5066	Loring B Lyons	Not available	Full lines of international trading services including countertrade and offset brokering management	Services to high-tech companies	None specified	Subssidiary of Honeywell Corp.

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Cre interagra	152-156avenue de Malakoff F-75016 Paris France Tel 502-1373	P. Doument.President	Est value of sales (1983) in excess of FFr 5B	Trade on own account including countertrade	Agricultural produce and foodstuffs	Bulgaria, Hungary Romania. U.S.S.R	Maintains representative offices in Budapest and Bucharest
International Commodites Export Co	717 Westchester Avenue White Plains NY. USA 10604 Tel (914) 683-8300	John Carpenter Senior Vice-President Bruce Mumford	Not available	Countertrade on own or client account. also provides specialized financial services	Wide range of commodities, raw materials and finished goods	World-wide network	Division of ACLI International and subsidiary of Donaldson Lufkin & Jenrette
A Johnson &Co GmbH	Taborstrasse 13 A-1020 Vienna Austria Tel (0222) 266-556	Syen Gustavvson	Sales: Schilings 280 M (1983) Employees 22	Advice representation and trade on own account	Chemicals ores and metals steel oil and coal foodstuffs	Deals with all countries where countertrade demands are raised but special experience in Poland	Part of the Axel Johnson Group (Sweden)
Kaiser International Corp	300 Lakeside Drive KB 2643 Oakland California USA 94643 Tel (415) 271-5793	Paul Kim	Not available	Acits as principal or agent for liquidation of countrertrade obligations	All products	World-wide coverage through network of own offices and agents in 40 countries	International trading subsidiary of Kaiser Corp Specializes in providing counter-trade services to manufactures engineering and construction firms. service companies

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Kaukomarkin at OY	Kutojantie 4 SF-02611 Espoo 61. Finland Tel 523-711	Not available	Not available	Countertrade products sold mainly in Finland	Chemicals machinery. textiles timber foodstuffs other consumer goods shipping services	U.S.S.R especially but also Bulgaria Poland Romania	Maintains representative office in Moscow
Leopold Lazarus	Gotch House 20-34 St. Bridge St. London EC4A 4DL UK Tel (01) 583-8060	Not available	Not available	Countretrade operations on own account	Ores and metals	Eastern Europe	Owned by the Lissauer Group (U.S.A)
Manufactures Hannover Export Finance Ltd	7 Princess Street London DC2P 2LR UK Tel (01) 600-5666	R.N Bracher	Not available	Handles countertrade operations for clients	All commodities con-sidered	Romania	Subsidiary of Manufactures Hannover Bank which maintains a brach in Bucharest
Massey-Ferguson Trading (NY) Ltd S.A	400 Madison Ave Suite 701 New York, N.Y USA 10017 Tel (212) 319-8770	Neil H Caplan President	Not available	Assistance in negotiation and structuring of countertrade transactions acting as principals partners or agents	Agricultural and petroleum products metals bulk commodities machinery	World-wide	Trading subsidiary of Massey-Ferguson but accepts external clients

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Morgan Grenfell & Co Ltd	23 Great Winchester St. London EC2P 2AX UK Tel (01) 588-4545	Dr A. Prince I Meek	Not available	Comprehensive advisory services on countertrade operations structuring of transactions associated financing	No limitation	Eastern Europe South America ASEAN countries certain African countries	Countertrade division of major British merchant bank
MG Services Inc	250 Madison Ave New York, N.Y USA 10022 Tel (212) 715-5200	George S.Horton	Not available	Comprehensive counter-trade services, including structuring approaches negotiating contracts. preparing documentation and purchasing products.	All products	All countries	Member of the Metall-gesellschaft. Group in addition.to New York head office. MG services maintains regional headquarters in London and Hong Kong Also Toronto Office; (416) 655-2328

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Mueller International BV	Startbann 5 NL-1185 XP Amstelveen Netherlands Tel (020) 470-481	G.B.J.Mueller FC van de Graft JP Moolenbeek H Patijin	Employees 80	International commodity trade. Including barter. countertrade and switch transactions. import and export pre-financing Acts as principal or agent.	Agricultural goods. metal and steel products. chemicals. fertilizers. crude oil and products. textiles. machinery and equipment, minerals. phosphates. cement	World-wide	Affiliated companies in London. Paris Baar (Switzerland). Lisbon and New York Countertrade International Inc. 575 Madison Ave. Suite 1006. New York, N.Y. USA 10022 Tel (212) 605-0295 Managing Director: G.de la Roche
Noble Trading Co Ltd.	809 Cameron St. Alexandria, Virginia USA 22314 Tel (703) 549-5966	Ms.Ruth Noble Groom, President	Not available	Liquidation of countertrade goods. purchase of goods for trade credits granted to client company. expertise in selection of marketable products	All products, but especially consumer goods	Eastern Europe	

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Noranda Sales Corporation Ltd.	PO Box 45 Commerce Court West. Toronto. Ont Canada MSL 186 Tel. (416) 869-7000	Richard Lote	Not available	Assists clients in selling to countries where non-traditional forms of payment are required: will participate as agent or principate as agent or principal in countiertrade transactions. also offers marketing consulting services	Forest products. minerals and metals. bulk commodities used industrially (e.g.coal, sulphur, phosphates)	No territorial limitation	Trading subsidiary of Noranda Mines No etigibilty requirements for external clients
Philipp Brothers (Canada) Ltd.	181 University Avenue Suite 1822 Toronto, Ontario M5H 3M7 Tel (416) 363-9226	Anthony D Frizelle President	526 billion (US) annual sales	Will structure and perform barter. countertrade. clearing and other types of "alternative financing"	All products considered	Operates world-wide. with offices in 52 countries	East European transactions can also be arranged through PHIBRO subsidiary. Philipo Brothers (Holland) NV. Prinses Irenestrast 39 NL-1011 Amsterdam Netherlands
The Royal Bank of Canada. International Trade Divisio	Royal Bank Plaza 13th Floor South Tower Toronto. Ont Canada M5J215 Tel (416) 865-4310	Dr Aldo Nicolai Frank Priyatel	Not available	Advisory and financial services. introductions. coordination of arrangements	None	World-wide, but European expertise	Bank offers services to clients on fee basis

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Satra Limited	15-21 Praed Street. London W2 1WJ. UK Tel (01) 402-5151	N.N. Bronstein	Not available	Countertrade purchases on own account	Machinery and equipment, especially automotive products, matels, minerals, chemicals, textiles, pharmaceulicats, canned goods	Czechoslovakia, Hungary, U.S.S.R. Yugoslavia	Long-established trading company with East European specialization British importer of Soviet Lada automobile
Secopa SA	22, rue d'-Aguesseau F-75008 Paris France Tel: 723-5577	Not available	Direct countertrade operations, switch, specialized financing	Chemcipals, fertilizers, foodstuffs, metals, agricultural products, textile raw materials	World-wide	Subsidiary of Schnedier et Cie-Le Creusot (France)	Major shareholder; Banque Franaise du Commerce Exterieure (France)
Seiter-Group AuBenhandelsgesellschaft mbH	Postfach 201609 Fishchertal 4 5600 Wuppertal FRG	Dr Klaus Tacke	Turnover $10M plus	Countertrading company founded in 1977 as part of a textile manulacturing firm	No restrictions, have handled numerous products	Poland and Czechoslovakia	Prefers deals of $1M or less. Good relationships with Polish and Czechoslovakian Foreign Trade Organizations

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Siber Hegner Holding Limited	bellerivestrasse 17. CH-8034 Zurich, Switzerland Tel.478-990	Not available	Not avail-able	International trade services, including countertrade	See "general information"	Eastern Europe and Far east	Parent company of group of firms enga-ged in international trade. Siber HenerMachinery Ltd, for mac-hinery; Si-ber Heger Textiles Ltd, for textiles; Siber Hegner Raw Materials Ltd, for chemicals and agricultural products, Handelsverkehr (Zurich) for watches, other consumer goods; Handelsverkehr (Frankfurt) for agricultural productSears World Trade, Countertrade Uni

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Sears World Trade. Countertrade	450 Fifth Street NW, Washington D.C. U.S.A. 20003 Tel: (202) 626-1960 Sears Tower Chicago, Ill. U.S.A. 60684 Tel: (312) 875-5801	Phil Rowberg Jack Wainwright David Schaffer	Not available	All espects of countertrade transactions, comprehensive package olser-vices	Consumer durables and other consumer products; aerospace industry products, high-technology products	None	Well established, active unit of Sears World Trade Inc.
Societa per l'Incremento dei Rapporti Commerciali con l'Estero (SIRCE)	Via Larga 23 1-20-122 Milan Italy Tel: (02) 861-451/2/3	Dr Alberto Levi	Capital, 400M Lira	Representation and trade on own account	Consumer goods, specialized machinery, chemi-cals, raw materials for the textile, steel and chemical in-dustries	Principally U.S.S.R. but also Bulgaria, Poland, Romania	Permanent rep-resentation in Moscow through atfiliated Swiss company
Sorice	79-81 avenue Danielle Casanova, E-94200 Ivry-sur-Seine, France Tel: 670-1182	Not available	Not available	Direct countertrade operations for clients	Machinery and equipment	Eastern Europe, especially Bulgaria, GDR, Hungary, Romania and U.S.S.R	

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIALIZATION	PRODUCT SPECIALIZATION	GEOGRAPHIC SPECIALIZATION	GENERAL INFORMATION
Transmedia BV	Burv Nispenstraat 33, NL-1251 KG Laren, Netherlands Tel: (020) 79-99-74	Not available	Not available	Countertrade operations	Deals chiefly in engineering products, motors, chemicals, occasionally in equipment for the woodworking and paper industry	U.S.S.R. Bulgaria and Romania, occasionally Czechoslovakia and Poland	
The Trade Exchange Group	2490 Bloor St Suite 400 Toronto, Ontario Canata M6S 1R4 Tel: (416) 763-3541	D Butcher, President C.Sharp	Not available	International trade and countertrade consultants and advisors	Sales of noncompetitive goods on Canadian market	World-wide	
Unico Trading Handelsgesseilschaft mbH	Jasomirgottstrasse 3/6 A-1010 Vienna Austria Tel: (0222) 633-241	Dr.H Stepic	Employees, 6	Agency ana countertrade services. Also engages in forfeiting, loan syndication, leasing and factoring	Timber and other raw materials, consumer goods, foodstuffs, agricultural products, textiles, chemicals	No territorial limitation, but especially U.S.S.R and Eastern Europe	Trading unit of the European cooperative banking group Unico
VOEST-Aloine intertrading CmbH	Schmiedegasse 14 A-4040 Linz Austria Tel: (0732) 3-83-31/49	Dr.C.Preschern	Sales Schillings 31B (1983) Employees, 164	Representation and countertrade	Metallurgical products, raw materials, crude oil, petrochemicals, agricultural products, machinery, textiles	No territorial limitation, but experienced in Eastern Europe	Member of the VOEST-Aloine Group (Austria)

NAME	LOCATION	SIZE	PRINCIPAL OFFICERS	FUNCTIONAL SPECIA-LIZATION	PRODUCT SPECIA-LIZATION	GEOGRAPHIC SPECIA-LIZATION	GENERAL INFORMA-TION
Welt international	1413 K Street NW. Suite 800 Washington, D.C U.S.A. 20005 Tel: (202) 371-1344/3	Leo G.B.Welt, President M.C. Listerud	Employees ,6	Consulting, representation, assistance in arranging trade finance and exhibitions	No limitation	U.S.S.R. Eastern Europe, China	Affiliate publishes East-West trade newsletters: Soviet Business and Trade, China Business and Trade

Source: Government of Canada **Countertrade Primer for Canadian Ewporters** (Ottowa, Ewternal Affairs of Canada, October 1985) pp 7-11.

APPENDIX - III

"Guidelines for the Implementation of Linking Government Import Procurements with Indonesian Non-Petroleum Exports" (1982 version)

I Government Procurements which are Linked

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

2 Excluded from this linking are:

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

b) those domestic components which constitute a part of the contracts signed by foreign contractors, which among other inclde service components, goods and taxes and levies;

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

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

II Specific Measures for Linking

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

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

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

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

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

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

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

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

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

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

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

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

III Procedure for Implementing Tenders

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

ditions of the linkage requirement shall already be attached.

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

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

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

5 The bidding committee will determine a *"short list"* of three candidates as potential winners of the tender whose identity shall be consequently transmitted to the Team for Guiding the Supplies of Government Goods and Equipment.

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

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

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

IV Supervision on the Implementation of Linkage Policy

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

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

3 The Department of Trade and Cooperatives shall report to the Team for Guiding the Supplies of Government Goods and Equipment on the progress of exports of each of the executors of exports linked to the government procurements.

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

V Sanction

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

VI Information

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

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

Jakarta Tel: (21) 352.919

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