BANK OF CREDIT AND COMMERCE INTERNATIONAL

SPECIAL TRANSACTIONS IN THIRD WORLD TRADE

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IN
THIRD WORLD TRADE

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PREFACE

Viewed globally, the world debt situation can only be kept - or brought back? - to a manageable exposure if international trade will make all efforts to assist the debtors facing acute debt servicing and creditworthiness problems.

* Debt servicing failures indicate a temporary liquidity shortage.

* Lack of creditworthiness indicates possible forthcoming insolvency.

Debt servicing problems are usually phase one of a development which can easily end up with an entire loss of creditworthiness, leading to phase two - insolvency. The restoration of the debt servicing capability at an early stage of development is, therefore, essential to prevent the debtor's insolvency. Aid on a multilateral basis can be assured by a variety of "special transactions" without increasing the assistants' financial exposure beyond their own limits.

Continued capital injections alone cannot solve a debt servicing crisis. Additional borrowing calls for repayment at a later point in time - which would frequently again pose financial problems for the debtor. A sound restoration policy must aim at the improvement of the debtor's foreign trade rather than financial structure. Thus, one of the many drugs of the first-aid case labelled "special transactions" will offer healing, not only alleviation.

I RANGE OF SPECIAL TRANSACTIONS

What are "special transactions"?

In international trade financing, the following methods are generally defined as special transactions:

1) Countertrade, with its variants:

   (a) Barter

   (b) Compensation

   (c) Counterpurchase

   (d) Product buy-back

   (e) Offset deals

2) Advance purchases, with or without escrow accounts

3) Switch

4) Leasing

5) Forfaiting

The order of the transactions was made with regard to the importance of each individual type of special transaction for world trade. In one or other form of countertrade, around one third of world trade - ie $ 650 billion in 1983 - has reportedly been settled. This figure is definitely conservative for the item "offset deals" where a lot of military secrecy is involved.

Advance purchases have recently emerged as one way of securing sales proceeds from a buyer of low payment morale or creditworthiness. Advance purchases are still very scarce and do not account for more than 0.02% of world trade - ie around $ 400 million.

Switch is on the rise again because of the increasing number of failing bilateral trade and payment arrangements. The annual switch turnover - not including the properly settled bilateral trade transactions - is estimated at some $800 million, or 0.04% or world trade.

Leasing is of increasing attractiveness to developing countries but not so much on the lessor's side. Records on leasing are even more obscure than on other special transactions. The total net value of leased equipment at the end of 1982 is put at around $ 50 billion - 2.5% of world trade, but it must be observed that leasing is extended usually over three to five years and cannot be compared with one year's world trade turnover.

Forfaiting has lost a great deal of its enticement to the financing community because it shifts the financial risk entirely on the financer's shoulders. Its end-1983 volume is estimated at some $ 1.4 billion - ie 0.07% of world trade.

By nature, special transactions were designed to keep trade going in times of economic recession or financial slumps. With the exception of the merely financing- and refinancing-related forfaiting, all the other special transactions should act as lubricant to the improvement in the efficient use of resources.

For countries with problems of stagnating exports, soaring imports and deteriorating terms of trade, the simplest means of restoring an equilibrium in their balance of payments is to raise countertrade demand. Opponents of countertrade claim that it disrupts the traditional exchange of goods. Market prices are usually distorted when the seller is forced to raise his export prices in order to compensate for the eventual loss anticipated from the disposal of the countertrade goods he had to take. Nevertheless, all signs point to an intensification of bilateral trade and countertrade agreements. Consequently, sellers anywhere in the world must ask themselves whether they can afford to abstain from this "archaic" form of trade: competitors may be better equipped for special transactions, able to comply with the demand for them - and win the deals!

The following explanations of the various types of special transactions are to be considered as a compilation of basic facts and do not provide a profound study of the many facets and problems inherent to each of them.

1) Forms of Countertrade

The term countertrade (CT) encompasses all foreign trade transactions in which an exporter commits himself to take products from the importer (or importer's country) in full or partial payment. In some CT transactions, payments for the goods bought and sold are actually made; in other types of CT there are no payments at all.

There are five basic types of CT:

(a) Barter

(b) Compensation (or compensatory deal)

(c) Counterpurchase (also called counterdelivery, parallel trade, reciprocal trade)

(d) Product buy-back

(e) Offset deals.

(a) Barter

Barter is the direct exchange of goods between two partners. There are two important differences between barter and all other forms of CT: no money changes hands, no transfer of barter commitment is permitted. Third parties can only tacitly be involved but never themselves sign the individual barter purchase or sales contracts. This must always be done by one of the barter agreement signatories. By contrast, compensation, counterpurchase or product buy-back commitment transfers to third parties (eg a professional trading house or an end-user) for fulfillment are common.

100% goods

Barter agreement signatory A ⟶ Barter agreement signatory B

Barter agreement signatory A ⟵ Barter agreement signatory B

100% goods

Genuine barter is mainly employed among developing countries and seldom involves industrialised countries. It is initiated by the two ultimate signatories who are lacking hard currency to finance vital import requirements. It is widely used for the direct exchange of raw materials for food or cereals, for instance, Nigerian oil for Brazilian canned food.

There are many problems arising out of variations in the quality of the merchandise of each shipment, transportation and freight charges.

(b) Compensation

Under a compensation arrangement, the seller agrees to take full or partial payment in kind. The purchase agreement is usually combined with the sale in one contract. Compensation deals may be compulsory for imports by non-state-trading companies in developing countries. Correspondingly, private sector products are usually offered in settlement of a compensation deal. Quality, finishing and type of such products may be a real bargain - or may make them more difficult to sell than the given developing country's traditional export products.

Full compensation deals are similar to barter arrangements, with two important differences:

+ the partners bill their deliveries but actual payments are mostly not affected - the invoice values are merely entered into a mutual "compensation" or "clearance" account;

+ the exporter can transfer his purchasing commitment to a third party.

Full compensation arrangements work as follows:

100% goods

Partner A (exporter) --> Partner B (importer)

↑

payment in hard currency (less subsidy*)

...mostly identical with...

↑

100% goods

end-user, trading house etc <------------------------------- counter-exporter

In full compensation deals, the question may arise as to which side is to undertake the first delivery. Should partner A agree to trigger delivery, he will ask partner B to provide a bank guarantee that his goods will be delivered as soon as partner A's products have arrived.

Full compensation transactions cause cumbersome and time-consuming procedures. It may take extremely long to find suitable partners to complete the deal. However, should a compensation deal come about today, it will be for full, rather than partial compensation.

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* subsidy = the amount which usually has to be given away by the CT - committed exporter to the buyer of the CT goods. The exporter has to make a cushion in its sales price in the size of the anticipated subsidy.

Under a partial compensation deal partner A would, for example, agree to accept 70% payment in cash and 30% in local products. Partner A has the right to transfer its purchase commitment to a third party.

100% goods

Partner A (exporter) → Partner B (importer)

70% payment in hard currency

payment in hard currency (less subsidy)

...mostly identical with...

end-user, trading house etc ← counter-exporter

30% goods

In most cases, compensation deals are initiated by hard-currency short importers rather than exporters. Genuine compensation agreements have a major disadvantage for the exporter: he gets payment for his delivery only after a buyer has been found for the products he was obliged to take and could not use himself. The original exporter's interests - to find easily marketable products - may collide with the original importer's interests - to delay compensatory deliveries for as long as possible. If no suitable products are available, the compensation obligation becomes nothing but an unexpected gift for the original importer. Sometimes this seems to be what importers have in mind when negotiating deals. Despite their inherent clumsiness, (full) compensation agreements seem to have gained importance again since 1982.

Financial implication

Compensation must be financed from the date when production of the export goods begins to the date when the sales proceeds of the compensation goods become available. Financing arrangements for compensation contracts must be flexible since the delivery of the compensation products may be delayed. The length of the period depends on locating compensatory products and determining when they can be delivered.

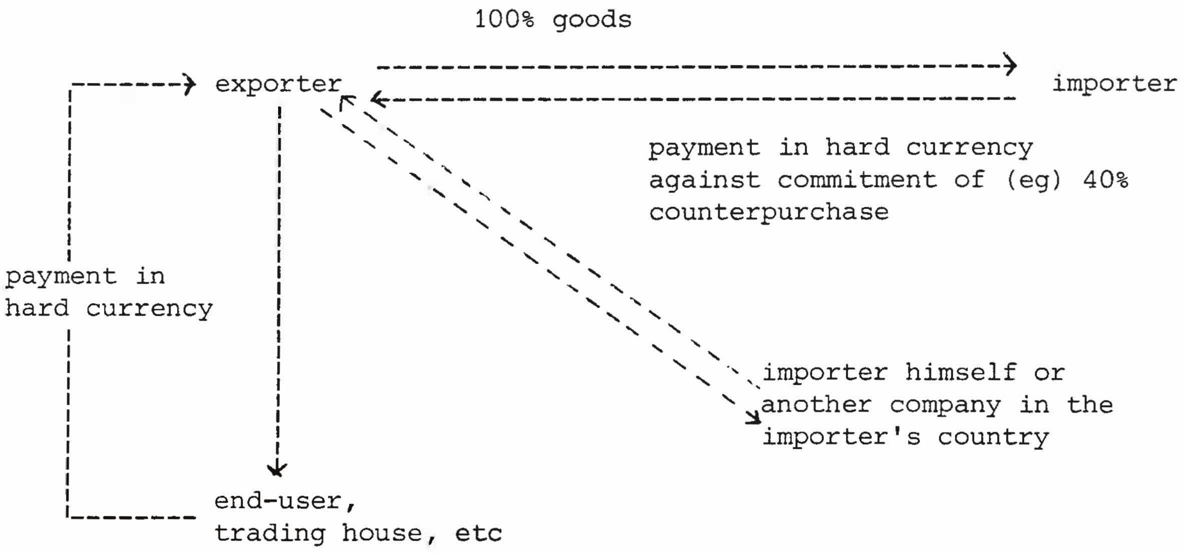
State export promotion facilities (such as the UK's ECGD) will not cover exports in compensation. They will deal only with that part of a sale that is considered a pure export not subject to any counter-commitment. Consequently, since sale and purchase are usually combined in one contract, only the amount of the sale minus compensation is eligible for credit guarantees. Under full compensation deals, no export risk guarantees and export promotion funds are generally available to an exporter.

In the case of partial compensation, export risk guarantee and export promotion funds are usually available for that part of the export not covered by compensation deliveries. With a 25% compensation agreement, 75% of the export value can be insured and refinanced.

(c) Counterpurchase

Counterpurchase (also called counterdelivery, parallel trade, reciprocal trade) is the most frequently practised form of CT.

Under a counterpurchase arrangement, the exporter commits himself to buy (or have bought by a third party) products equivalent to a certain percentage of his own deliveries. The counterpurchase products should ideally be selected from the importer's range or field of industry, but deviations from this wishful thinking are more than exceptional. Initiative is generally on the importer's side but exporters may be found to offer counterpurchase as their sales incentive.



There are two major differences between compensation and counterpurchase:

+ In almost all counterpurchase deals, two separate but linked contracts are initially signed: one contract for the sale of products, and a second contract in which the exporter undertakes to purchase (often nonspecified) products during a certain period of time (usually 6-18 months). (A third contract, for the actual purchase of the CT goods, will eventually supplement the two initial contracts.)

+ The seller enjoys the major advantage of getting full payment for his deliveries at once or under credit arrangements, while the counterpurchases have to be paid for only when suitable products have been found and a contract signed.

Letters of intent. Not every counterpurchase transaction is tied to a specific protocol. Many developing country negotiators appreciate the difficulties some suppliers have with CT. They may suggest a letter of intent - basically an undertaking to engage in CT - made by the supplier. Companies that become involved with signing letters of intent are most often those that have products high on the import priority list of a given country. Thus, they ordinarily do not encounter pressure to sign a legally binding contract to purchase CT goods. The demand for CT is frequently to probe that company's general willingness to undertake counterpurchases.

In general, letters of intent are coming into wider use in socialist and developing countries in transition to industrialised countries (such as Brazil, India, Philippines and South Korea).

The letter of intent is, of course, very vague and general, and no reference is made to purchases from a specific company. Usually, no product is specified either. The major problem to be encountered in the settlement of letters of intent is that traditional export goods will not be accounted against the purchase intent.

Counterpurchase, sometimes also compensation, and particularly buy-back transactions are usually preceded by a general frame agreement that stipulates the commitments of each contract partner.

The frame agreement only makes practical sense if it formulates a long-term commitment, obliging the one partner, for instance, to counterpurchases of 40% of all his sales to the other partner during a given period. Such purchases and sales are usually paid for, but record entries are made into evidence (or record) accounts. They are no financing instrument, but offer as a major advantage to both partners that size, range of CT goods, and fulfilment period of the counterpurchases are more lenient than in ad hoc CT deals.

Any type of frame agreement is legally binding. The letter of intent is morally binding. Frame agreements are typically signed by multiproduct organisations which have a variety of own sourcing requirements and a broad range of products to offer. Third parties may assist in the settlement of frame agreements. Letters of intent are typically issued by suppliers of priority or essential materials, frequently without strong competition. Transfers of letters of intent to third parties is cumbersome, but possible.

Financial implication

Since sale and purchase are contracted separately in a counterpurchase transaction, the two companies involved are each paid under letter-of-credit or payment-against-document terms for the full amount of their invoice value. Sale on deferred payment terms can be financed for the periods set in the letter of credit either from the payee's own resources or through normal export credits from a financing institution.

(d) Product buy-back

Product buy-back arrangements were the most rapidly growing form of CT in the late seventies. Under such an arrangement, the seller of plant, equipment or technology agrees to accept for his deliveries (part, but frequently more than 100%) payment in products manufactured with the equipment he has supplied. Often, buy-back arrangements are shared by the general contractor with sub-deliverers and licensors.

(d) Product buy-back (cont)

Phase I

General contractor, licensor, equipment supplier etc

100% of a turnkey plant

importer

against commitment to buy back resultant, nonresultant or both types of products

100% hard currency split up among the committed suppliers

Phase II

General contractor, licensor, equipment supplier etc

100% hard currency payment

importer himself

In most cases through a trading company or a trading house

product deliveries from the imported plant

Buy-back may take any of three forms:

+ payment in resultant products relating to - and frequently competing with - the supplier's industry;

+ payment in resultant products not relating to - and consequently not competing with - the supplier's industry;

+ payment in a package of resultant and nonresultant products.

If the supplier accepts only nonresultant or non-competitive products, the transactions are equal to counterpurchase.

Financial implications

Buy-back arrangements may require difficult and expensive financing. The conventional export credit terms in the suppliers' country are extended to the part of the sale covered by a credit arrangement, but other financing will be needed for the buy-back portion of the transaction. The credit for this portion must cover the total period from the shipment of the plant and equipment to the receipt of the first consignment of the buy-back products. The duration of this credit can be very long, since erection and startup of such plants are often delayed by several years. These delays may cost a large amount in extra interest.

(e) Offset deals

This type of countertrade has recently risen in frequency and in turnover and also involves industrialised countries. The seller commits himself to generate a certain amount of foreign exchange to pay for his supplies, for instance by selling or helping to sell the importing country's products, or to create new industries with export capacity in the importing country.

Offset deals are typical between Western multinational companies and state-trading organisations or government procurement offices on the importing side. They are widely used for imports of weapons, ammunition or other strategic equipment or materials; or, in other cases, for the construction and installation of military airports, or of power stations of crucial strategic importance. Altogether, there is usually some degree of secrecy surrounding offset deals which do not qualify for broad-scope settlement.

Financial implication

By nature of the offset deals, many of them are financed to the debit of the importing country's state budget, and the resulting counterexports usually benefit from generous export promotion financing, frequently with governmental support.

2) Advance purchases

Advance purchases are apparently, in many cases, the only way to secure in-time and reliable payment for supplies to certain countries. They have been initiated by exporters distrusting the payment morale and/or credit-worthiness of certain buyers, or even countries.

The supplier will commit himself to purchase a certain product - without price indication - whose disposal will be undertaken in order to generate hard currency for an import needed by the would-be buyer. In the basic frame agreement, it will be stipulated in generic definitions, or approximate quantity terms, that the sales proceeds of the buyer's products will determine the quantity of products that can be delivered to the buyer: "The seller commits himself to buy 5,000 tons of coal (no references to quality, impurities, or calorific value, or price) against supply of steel sheets (no quantity, no dimension, no price)." The exporter of the advance-products usually sets a lowest price limit for their disposal and gets a specific offer including price of the products he intends to buy ultimately. In most cases, the value of the two-way deliveries is balanced but this is not mandatory.

Phase I

100% goods

Company A ←--- Company B

Company A ---→ Company B

payment in hard currency
to escrow account
against Company B's purchase order

Phase II

goods as ordered

Company A (or, in his lieu, a third party) -------------------------------------→ Company B

Company A (or, in his lieu, a third party) ←------------------------------------- Company B

full payment in hard currency
to the debit of the escrow account

There have been cases that the ultimate importer provided the seller with products as a collateral but did not want to have those products sold immediately. Typical of such transactions is the metal business where the exporter wants to benefit from anticipated price increases in the metal market. The exporter would transfer the <u>right of title to the goods</u> but not the <u>right of disposal</u>. Of course, there must be an arrangement for how long the exporter may reserve the right of disposal. It would be unfair to the holder of the right of title to watch a depressing market and to run into a price baisse which would reflect on the value of the collateral.

Another way is to acquire a purchase option at fixed prices without having, on hand, an actual purchase order by the option partner. There will be a clause in the option contract stipulating that this purchase can be fully linked with any later, but still unspecified, sale of products - also by third parties - to the party which issued the option.

Financial implication

The sales proceeds of the advance-products are either kept in-house by the company which has disposed of the products, or put into an "escrow account"; or used to establish "fancy" letters of credit.

(a) In-house (Western company administers EE export proceeds)

When an importer orders goods which can be readily supplied from the exporter's stock, the exporter would resell the advance-product and use the sales proceeds to immediately expedite the goods ordered by the importer. Typical goods exchanged without the detour of an escrow account are those which can be sold by metres, weight or other measurement, or whose single units are low in value, such as handtools. In such cases, there is no need for opening an interim or escrow account or for establishing a delivery guarantee. That would only delay the fulfilment of the order and cost money.

(b) Escrow, trustee, or interim accounts

When an importer orders engineered products or goods made to specification, production usually begins only when the advance-purchases are sold and the money for the purchase is available. In such a case, the export proceeds from the advance-products may be put into an "escrow account" or "trustee account" or "interim account" with a bank. The balance of this account is earmarked for payment of the deliveries.

With the escrow balance secure, the exporter can begin the completion of the import order for engineered products. This may take several weeks or months. During this time span, the buyer naturally wants to be sure that its export proceeds will only be used for the payment of its import order. Therefore, the proper use of escrow balances is in most cases guaranteed to the buyer by the exporter's home bank, for instance, in a separate letter (or certificate) of guarantee. In cases where a guarantee is requested by the importer, it will be mandatory to keep the escrow balance at the exporter's home bank. But also without a guarantee request, the escrow balance should not be returned to the importer or his home bank by any means - otherwise, its collateral function would be diluted.

(c) "Fancy" letters of credit

In order to avoid disputes over the location of the escrow balance, letters of credit for the advance purchase can be opened, but these would simultaneously be offset by a back-to-back letter of credit for the import order. The letters of credit would be offset against each other by the exporter's and importer's home banks involved.

The purpose is to earmark by specific letters of credit the receivables from one side's export for payment of that side's import.

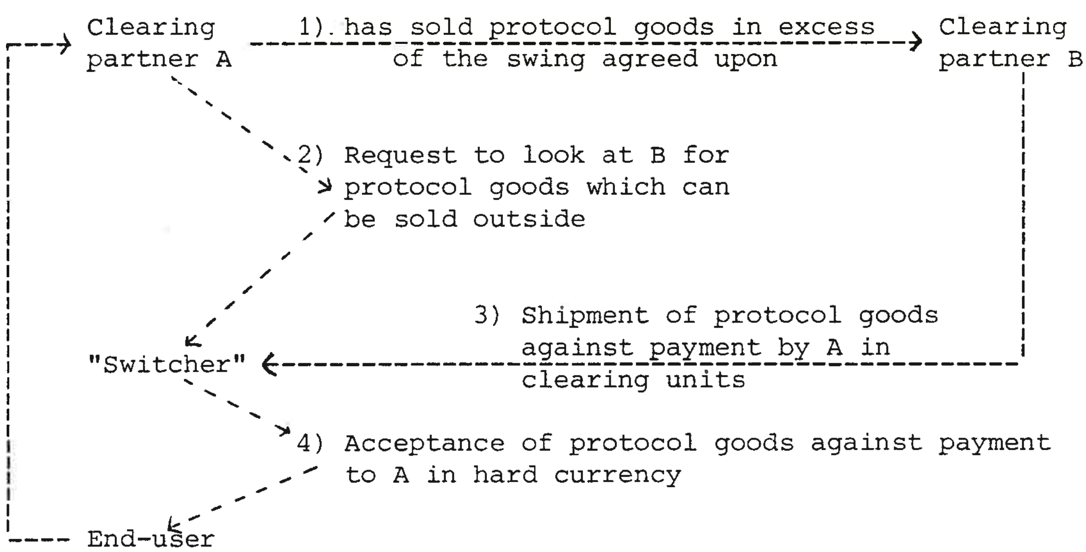
3) <u>Switch</u>

Switch is the outcome of a bilateral trade and payment agreement that has come to a standstill at a given point of time. Bilateral trade agreements specify the type, usually the quantities also, of the products which are to be exchanged between the two partners of the agreement over a given period of time (three to five years). Settlement of the bilateral trade is effected in a clearing unit (such as clearing dollars or clearing rupees) through accounts carried by the central banks of the countries involved.

A standstill in the bilateral trade may occur if one trade partner has sold to the other partner in excess of the stipulated <u>swing</u> - the value by which the two sides of bilateral trade may deviate at any time (usually 25% of the lower side of the turnover). The creditor partner will have no interest in extending further commercial credit to the debtor partner since clearing balances are usually interest-free. The debtor partner is in no hurry to balance the clearing account; or, it is not able to fulfil its bilateral obligation.

In such a situation, each of the two partners may call in the (unofficial) help of an outside third party. The transfer of a clearing balance is what has created the definition "switch": a third party can enter into bilateral agreements only with the (tacit) approval of at least one signatory of the agreement.

The crucial task of the "switcher" - the one who enters into a stalemate bilateral trade and payment agreement - is to ascertain which of the products included in the bilateral trade agreement have not yet been settled. Settlement can only be achieved in those "protocol goods" and must be channelled through the bilateral clearing accounts with the two central banks involved. The intricacies of switch may frequently require multi-angular transactions.



It is essential that none of the outside third parties, end-users etc, have a bilateral trade or payment agreement with any of the two clearing partners themselves.

Financial implication

Before it comes to a switch transaction, one side of the bilateral trade agreement has obviously already been fulfilled. The tracing of switch products is usually time- and overhead-intensive. The lifting of the products should be done on a back-to-back letter-of-credit basis, that is that the end-user of the switch products should open a letter of credit in favour of the switcher, and the switcher, in his turn, open a letter of credit in favour of the bilateral agreement creditor. (In practice, the procedure is far more complex, but it can be boiled down to the given simplified model.)

4) Leasing

Leasing is increasingly preferred by developing countries since they have realised its advantages: the immediate disbursement of hard currency is only a fraction of a straight-forward import, and obsolescent equipment can be returned to the lessor, or be replaced with more modern equipment during the leasing period. The major objection raised by leasing companies regarding leasing to developing countries, is that the right of title cannot always satisfactorily be secured. Export risk insurance on the supplier's side is not always available, or not always extended.

Financial implication

Leasing involves three to five years financing on the supplier's side and is usually provided by professional leasing companies. They get the right of title to the goods and establish a direct relationship with the end-user (lessee) of the leasing object in the developing country. But developing countries have proposed in more than one case to convert the obligation of paying leasing fees into payment with goods made on the leased equipment once they have learned how to use it and how to turn out exportable goods. Agreements providing for payment of leasing fees with resulting products require the leasing company to dispose of these in order to convert the goods back into money. Prior to entering into such arrangements, the marketability of the resulting products has to be verified. Interim financing is not needed: the end-user of the products can be asked to open a letter of credit together with its signing of the purchase contract.

5) Forfaiting

Forfaiting is the exporter's sale of documented export claims without the right of recourse to the exporter. A variety of such export claims qualify for forfaiting. Among the formal prerequisites of forfaiting trade paper is the frequent request by the forfaiter that the paper bears the guarantee of the importing country's central or foreign trade bank. Therefore, proper assessment of the country risk is involved in forfaiting. Altogether, the outbreak of financial crises in many countries has substantially decreased the volume of forfaiting.

Financial implication

Forfaiting is mainly a financing or refinancing transaction, with no product aspect involved. Under the present circumstances, forfaiting is not a recommendable business.

CONCLUSION OF PART I

Special transactions involve time-consuming work but it is worthwhile exploring them because of their increasing importance in world trade, and particularly the trade among developing countries themselves. The most outstanding features in exploring opportunities for special transactions will always have to be the three P's: patience, perseverence and persistence. One should not apply one feature after the other, but all well-balanced at the same time. Only this can secure a satisfying ratio between effort and result.

BAFAG, West Germany's largest universal trading house, maintains that only 5 to 7 percent of all companies' enquiries on special transactions actually bear fruit and assign to them for settlement. Negotiations leading up to special transactions are delicate and frequently collapse in the initial stage because of the plain fear of the parties involved of the complexity of the deals.

II CASE EXAMPLES

The case examples listed hereafter focus on two aspects:

+ First, major attention is paid to special transactions concluded South-South, that is, between developing countries, followed by those involving developing countries on one side and socialist or developed countries (North-South) on the other; the bulk of today's special transactions which are so prominent of East-West trade (particularly OECD countries with the CMEA countries and Yugoslavia) are ignored for the purpose of this survey, as much as possible.

+ Second, the survey has borne in mind the low industrialisation of the target countries and looked into the volume of special transactions involving non-finished products:

    * oil

    * agricultural produce and food (cereals, animal products, fruit and vegetables, tea, coffee, tobacco, cocoa, sugar, seafood, cotton, jute

    * raw materials, such as ores, minerals, coal, rubber, timber etc.

    In addendum, special transactions involving a variety of products including finished goods are listed.

Products whose output is governed by international quota agreements or traded at exchanges are very price-sensitive, and vulnerable to supply-and-demand fluctuations to a higher extent than manufactured goods. In many cases, the products under prime consideration have been hit by depressed market prices when they became available and could not yield the hard-currency proceeds which the exporters had anticipated. In order to secure a given level of proceeds before the products have actually been cropped or mined, developing countries' exporters tend to resort to barter such products against other items of domestic demand. Barter, as one of the types of special transactions, is usually preferred over other types: its strict non-monetary - "residual" - settlement permits tacit price and/or quantity amendments or concessions, in the event of the prices of the involved products slackening, until the date of shipment. (Otherwise, the unbalanced part of the mutual exchange of goods still had to be covered in hard currency.) In addition, the hard-currency reserves of the bilateral trade partners are not strained further by the trade with their ilks.

Between January 1982 and end-1983, the following non-finished products had been offered in large-scale deals in exchange with each other as well as for other goods:

+ oil (39 agreements)
+ cereals (12)
+ rice (15)
+ cattle (2)
+ hides and skins (4)

+ dairy products (3)
+ meat and meat products (14)
+ fruit, vegetables and spices (24)
+ tea (5)
+ coffee (17)
+ cocoa (4)
+ tobacco (4)
+ sugar (7)
+ edible oils and fats (14)
+ seafood (7)
+ other food (14)
+ jute (2)
+ cotton (2)
+ other agricultural produce (13)

+ rubber (5)
+ timber and non-finished wood products (12)
+ coal (5)
+ iron ore (6)
+ nonferrous metals or ores including bauxite (14)
+ other raw materials (14)
+ cement (4)

+ manufactured goods (186)
+ services (15)

World leaders in large-scale exchanges of the above mentioned products are (by frequency):

Developing countries	Socialist countries	Developed countries
Iran	Soviet Union	Japan
Indonesia	Cuba	New Zealand
Brazil	Vietnam	South Africa
Mexico	Poland	United States
Ecuador	Rumania	Canada
Thailand	Bulgaria	France
Jamaica		Sweden
Costa Rica		
Israel		
Bangladesh		
Pakistan		
South Korea		
Malasyia		
Tanzania		
Nigeria		
Zambia		

Deals of the South-South type or between developing and socialist countries are almost exclusively concluded by governmental or parastatal agencies.

a) Oil

	Product specification	given away by	to	in lieu of payment for
1)	oil for $ 100 million	Iran	Pakistan	$ 100 million worth of 50,000 tons of sugar, 130,000 tons of 20% lower priced wheat, rice, and chemical fertilizers
2)	oil for $ 300 million	Iran	Taiwan	textiles, chemicals, machinery, building materials, food (for $ 210 million) and cash ($ 90 million)
3)	oil for $ 80 million	Iraq	India	20% of $ 400 million worth of construction work, offered after its completion
4)	oil for $ 110 million	Iraq	Jordan	100% of $ 110 million worth of Trocon (Transorient Engineering and Contracting Company , Iraq) contracts for construction including a university building and air transport services; offered after completion of services to the Jordan Petroleum Refinery Company
5)	1.5 million tons of oil	Libya	Turkey	$ 700 million worth of contractors services; offered after completion to Turk Petrol Alim Sirketi, a joint venture formed by the original Turkish contractors and the Swiss trading house Euravia
6)	5 million barrels of oil	Nigeria	Thailand	500,000 tons of rice. Thailand had to find a buyer for the resulting shipments of crude oil since it already had an agreement to cover its domestic demand of oil from Saudi Arabia

a) Oil

	Product specification	given away by	to	in lieu of payment for
7)	light-weight oil	Nigeria	Venezuela	heavy crude oil
8)	oil	Ecuador	USA	aircraft
9)	oil	Iran	New Zealand	$ 200 million worth of frozen lamb
10)	oil	Iran	Sweden	paper and pulp ($ 29 million) , glass products ($ 22 million), viscose ($ 6 million) general machinery ($ 7.8 million). Crude oil was to be delivered to the Swedish trading house Sukab before Swedish goods were shipped
11)	80,000 bpd of oil	Iraq	France	overdue payments for industrial equipment
12)	oil	Peru	Japan	pipeline construction
13)	oil	Qatar	Japan, South Korea	industrial construction work after its completion
14)	oil worth almost $ 1 billion	Saudi Arabia	USA	10 Boeing-747 jetliners
15)	oil	USSR	France	oil-drilling platforms used in Caspian Sea
16)	oil and natural gas	USSR	Japan	exploration and exploitation of oil and gas fields offshore Sakhalin
17)	oil and derivatives	Venezuela	Italy	technical assistance in agriculture, agro-industries, university education

b) Agricultural produce and food

	Product specification	given away by	to	in lieu of payment for
1)	grain	Argentina	Iraq	oil
2)	meat products	Botswana	South Africa	electrical equipment and appliances
3)	coffee	Brazil	P.R.of China	cinnamon
4)	25,000 tons of sugar	Brazil	Venezuela	63,000 barrels of oil
5)	200,000 tons of soybeans, 360,000 tons of sugar (valued at $ 93 million)	Brazil	Venezuela	80,000 bpd of oil
6)	rice	Burma	Bangladesh	jute bags
7)	rice	Burma	Malaysia	palm oil
8)	coffee	Costa Rica	Israel	insecticides
9)	pyrethrum	Ecuador	Brazil	trucks
10)	bananas	Ecuador	South Korea	Hyundai motor vehicles with less than 2000 cc engines and of 1.5-3 tons carrying capacity; limited to $ 10 million p.a.
11)	bananas	Ecuador	not identified	spare parts of motor cars
12)	bananas	Ecuador	any supplier	alcoholic beverages (by law!)
13)	sugar, rubber, oils	Guatemala	Mexico	petroleum products
14)	rice	Guyana	Jamaica	soybeans

b) Agricultural produce and food

	Product specification	given away by	to	in lieu of payment for
15)	coffee	Honduras	Israel	telecommunications equipment
16)	beans	Kenya	Thailand	rice (sold by NCPB National Cereals and Produce Board)
17)	palm oil	Malaysia	Pakistan	50,000 tons of rice ($ 11.25 million)
18)	30,000 tons of palm oil	Malaysia	Thailand	35,000 tons of rice
19)	fish meal, canned fish	Peru	South Africa	PVC resin
20)	sugar	Philippines	P.R. of China	tools and machinery (sold by PITC Philippines International Trading Corp)
21)	rice	P.R. of China	Pakistan	jute
22)	rice	P.R. of China	Sri Lanka	rubber
23)	canned and frozen meat products	Somalia	Egypt	batteries, plastic products, tyres, textiles ($ 20 million)
24)	50,000 tons of rice	Thailand	Bangladesh	jute
25)	12,000 tons of beef, 60,000 tons of rice, 3,500 tons of butter, 1 million tons of poultry ($ 75 million)	Uruguay	Iran	$ 100 million worth of oil, bought by ANCAP
26)	coffee, food	Zambia	Tanzania	use of Tanzanian railroad system

b) Agricultural produce and food

	Product specification	given away by	to	in lieu of payment for
27)	grain	Argentina	USSR	turbines
28)	1 million tpa of soybeans, 500,000 tpa of corn, cocoa (valued at $ 300 million over its five-year life)	Brazil	USSR	20,000 bpd of oil, hydroelectrical turbines
29)	agricultural produce	Cameroon	Japan	industrial equipment
30)	coffee	Costa Rica	GDR	fertilizers
31)	coffee	Costa Rica	Hungary	transit buses
32)	coffee	Costa Rica	Rumania	paper
33)	coffee	Costa Rica	Belgium	railroad cars
34)	bananas	Ecuador	Czechoslovakia, Rumania	agricultural equipment
35)	bananas	Ecuador	USSR	Lada cars, Niva cars, SKM pick-up trucks not exceeding 2000 cc and having 1.5-3 tons carrying capacity; limited to $ 10 million p.a.
36)	bananas, coffee	Ecuador	France, Italy, Japan	cars
37)	bananas, frozen shrimp	Ecuador	USA	trucks
38)	pulses, oil seeds	Ethiopia	Bulgaria	ready-made garments
39)	animal hides	Ethiopia	various suppliers	agricultural and food processing equipment
40)	160,000 tons of grain (mostly wheat)	France	Poland	500,000 tons of coal

b) Agricultural produce and food

	Product specification	given away by	to	in lieu of payment for
41)	cardamom	Guatemala	not identified	machinery
42)	agricultural produce	Israel	West Germany	trucks
43)	meat, bacon, lard	Poland	Austria	computers
44)	food	P.R. of China	USSR	wood pulp, chemicals, Volga cars
45)	canned food, bran	Rumania	Great Britain	agro-chemicals
46)	200,000 tons of corn	South Africa	Rumania	208,000 tons of nitrogenous fertilizer
47)	200,000 tons of corn	South Africa	USSR	nitrogenous fertilizer
48)	coffee, cotton, tea,tobacco	Tanzania	GDR	10,000 bicycles and other manufactured goods
49)	cash crops	Tanzania	Bulgaria, Finland, Sweden	industrial projects construction
50)	beeswax, prawns, kapok fibres, skins (sold by GAPEX General Agricultural Products Export Corporation)	Tanzania	Japan	industrial inputs, debts in arrears
51)	tea, sisal	Tanzania	Japan	steel products for Aluminium Africa works
52)	beef, citrus fruit, wheat bran ($ 9 million)	Uruguay	GDR	12 port cranes
53)	agricultural produce	Uruguay	Austria	rails
54)	beef	Uruguay	Italy	telecommunications equipment ($ 20 million)
55)	wool, meat, rice	Uruguay	any supplier	capital goods

b) Agricultural produce and food

	Product specification	given away by	to	in lieu of payment for
56)	10,000 tons of raw cotton	USSR	Japan	4,000 tons of synthetic fibres, 6,000 tons of synthetic cotton staple, polyester short staple
57)	tobacco	Zimbabwe	Bulgaria	tractors, agro-chemicals
58)	tobacco	Zimbabwe	GDR	raw materials

c) Raw materials

	Product specification	given away by	to	in lieu of payment for
1)	300,000 tpa of iron ore, over five years, by federally-owned Cia. Vale do Rio Doce	Brazil	Malaysia	10,000 bpd of oil ($ 40 million)
2)	$ 60 million worth of iron ore from Caracas, sold by Cia. Vale do Rio Doce	Brazil	Czechoslovakia	thermoelectric plant Jorge Lacerde V in Santa Catarina
3)	bauxite	Brazil	USSR	oil
4)	timber	Ghana	not identified	transport equipment
5)	timber	Ghana	probably Bulgaria	transport equipment
6)	50,000 tons of bauxite sold by BIDCO	Guyana	USSR	machines and equipment ($ 8.5 million)
7)	lumber	Honduras	Czechoslovakia	medicaments
8)	sulphur and oil	Iraq	India, Japan	strategic road and railway construction
9)	50,000 tons of alumina ($ 8.1 million)	Jamaica	Yugoslavia	building components and materials for 1,500 low-income houses
10)	bauxite	Jamaica	USA	dairy products ($ 13.6 million)
11)	bauxite, alumina	Jamaica	various countries including USA	motor vehicles

c) Raw materials

	Product specification	given away by	to	in lieu of payment for
12)	raw phosphates	Jordan	Japan, South Korea	35-50% of government procurement imports
13)	raw materials	Malaysia	Western suppliers	railroad equipment
14)	copper	Peru	not identified	automobiles
15)	nickel, ferro-chrome	South Africa	USA	printing presses
16)	minerals and raw materials ($ 130 million)	Turkey	Yugoslavia	commercial ships built by 3rd May Shipyards in Rijeka, counterpurchases handled by Investimport
17)	minerals, including zinc, copper, cobalt	Zaire	USA	vehicle kits and spare parts
18)	copper	Zaire, Zambia	not identified	copper and other mining equipment
19)	copper	Zambia	Bulgaria	food
20)	copper	Zambia	Rumania	trucks
21)	ferro-chrome ores	Zimbabwe	Rumania	urea

d) Multiproduct arrangements

	Product specification	given away by	to	in lieu of payment for
1)	steel products ($ 100 million)	Brazil	Angola	oil (Angola has option to pay for its imports from Brazil in hard currency on 360 day terms)
2)	manufactured goods (worth $ 400 million in 1983 alone)	Brazil	Iran	40,000 bpd of oil
3)	Cascaval armoured cars	Brazil	Iraq	oil
4)	oil products, petrochemicals; 160,000 tons soybeans; oil-drilling equipment ($ 3 billion), put together by Interbras	Brazil = through clearing account to be balanced every three months in $)	Mexico	80,000 bpd of oil (worth $ 3 billion, payment of which was in arrears); supplier Pemex, buyer Petrobras
5)	oil storage facilities on Ecuadorian territory	Ecuador	Brazil	manufactured goods
6)	semi-finished goods	Egypt	Brazil	metal ingots
7)	bulk rock phosphates	Egypt	Malaysia	blending of the rock phosphates into fertilizers and bagging, for resale in Malaysia, Thailand, Singapore
8)	manufactured goods	Israel	Latin America (particularly Argentina, Brazil, El Salvador)	wheat, fodder, deep-frozen kosher beef, edible oils and fats, sugar, coffee
9)	hides, skins, pyrethrum, tea, starch, sisal, canned pine-apples, honey; fluorspar	Kenya	Yugoslavia	a variety of manufactured and consumer goods ($ 5 million p.a.)

d) Multiproduct arrangements

	Product specification	given away by	to	in lieu of payment for
10)	crude oil, refined palm oil; timber; electrical products, textiles	Malaysia	South Korea	patrol boats
11)	palm oil, pepper; tin, caoutchouc, semi-finished materials put together by Prenas Trading	Malaysia	Yugoslavia	electrical transmission and automation equipment sold by Energoinvest
12)	manufactured goods	Mexico	Colombia	1 million tpa of coking coal (worth $ 40 million) for the Lazaro Cardenos steel-works complex
13)	Xiamen-made products including rubber gloves and shoes	P.R. of China	Malaysia	three power plants, technology for rubber and wood processing industries in the special economic zone of Xiamen, arranged by the Malaysian Overseas Investment Corp
14)	sugar cane, cocoa beans, maize; textiles and garments	Tanzania	Mozambique	coffee; tyres, refrigerators, batteries, textiles
15)	sisal products, cloves, clove oil, seafood; iron sheeting	Tanzania	Zimbabwe	farm implements, coal, iron sheeting, seafood
16)	seafood, spices; textiles	Tanzania	Zimbabwe	dairy cattle, yeast; coal; steel products
17)	salt, colanuts; sawn timber, ($ 2.5 million)	Upper Volta	Ghana	cattle ($ 5 million)

d) Multiproduct arrangements

	Product specification	given away by	to	in lieu of payment for
18)	oil; leather	Angola	Portugal	barrage equipment, shoes, boots
19)	coffee; iron ore; shoes, textiles	Brazil	Eastern Europe	corn
20)	coffee; footwear, textile products ($ 10 million)	Brazil	GDR	ammon sulphate, sulphur, corn (ex the GDR's own purchase quota with Canada)
21)	structural components, parts and raw materials for commercial aircraft	Brazil	USA	aircraft
22)	two-year promissory notes which may be converted into CT goods	Brazil	various suppliers	$ 200 million worth of oil to Petrobras
23)	plywood	Ecuador	not identified	computers
24)	cocoa, coffee, cattle feed, tea; rubber; cement, plywood, wooden products, fürniture, household articles, garments	Indonesia	any foreign supplier	all public sector construction and procurement imports valued at more then rupiah 500 million
25)	non-oil products	Indonesia	Great Britain	Dowty Meco's coal mining equipment (£ 20 million) for Ombilin mine
26)	coffee, cocoa; rubber;cement	Indonesia	Japan	200,000 tons of fertilizers ($ 127 million) supplied by Mitsubishi
27)	dried fruit and vegetables; irrigation and fodder preparation systems	Israel	Hungary	meat products, flowers ($ 3.5 million)
28)	cashew-nut oil, beans; fluorspar sold by KNTC	Kenya	USA	chemicals

d) Multiproduct arrangements

	Product specification	given away by	to	in lieu of payment for
29)	choice among all Maltese export products and services except textiles and tourism	Malta	Spain	power generating equipment ($ 7.5 million)
30)	ships, ship equipment, consumer goods	Malta	USSR	oil and derivatives; cement, automobiles, industrial equipment
31)	wine; phosphates	Morocco	West Germany	electrical equipment
32)	cement	Mozambique	Switzerland	milk and dairy equipment, spare parts
33)	spare parts and machinery ($ 37 million) made to Boeing's specification	Pakistan	USA	six Boeing 737-300 airliners ($ 187.7 million)
34)	textiles, garments	Peru	USSR	arms
35)	rice, canned fruit, vegetables; textiles, chemicals, machine tools ($ 290 million)	P.R. of China	GDR	scientific instruments, printing machinery, trucks, chemicals, fertilizers ($ 290 million)
36)	gold jewellery	Senegal	not identified	vehicles
37)	cotton yarns and fabrics as well as buy-back of products made in the supplied factories	Sudan	various suppliers	equipment for the production of plastic materials, metal goods, pharmaceuticals, imported by the Wadi el Wil company
38)	agricultural produce; phosphates; textiles ($ 22 million)	Tunisia	France	expansion of phosphoric acid plant (for $67 million) at La Skhira, ordered by SIACE Société Industrielle d'Acide Phosphorique et d' Engrais, supplied by Spie Batignolles and Heurtey Industries

d) Multiproduct arrangements

	Product specification	given away by	to	in lieu of payment for
39)	olive oils, agricultural produce; phosphates; textiles ($ 134 million), put together by Centre de Promotion des Exportations, for sales outside EEC	Tunisia	France	construction of La Skhira phosphoric acid plant ($ 101 million) by Spie Batignolles
40)	wool tops, fish, hides; semi-precious stones; shoes ($ 9 million)	Uruguay	Hungary	a floating crane for the Montevideo port
41)	100,000 tons of rice; 500,000 tons of coal ($ 100 million over five years)	Vietnam	France	100,000 tpa of wheat and wheat flour; 400,000 tpa of fertilizers ($ 100 million)
42)	living room carpets	Vietnam	West Germany	jobbing (weaving assignments)
43)	light bulbs ($ 850,000)	Yugoslavia	Great Britain	lamp components ($ 850,000) supplied by the Delamar Group to Tesla
44)	lumber; chemicals, finished products, put together by Genex	Yugoslavia	USA	35,000 bpd of oil, 3 million tpa of coal (worth $ 400 million) supplied by Occidental Petroleum to INA Nafte
45)	tobacco, coffee, tea; asbestos, ferro-chrome; copper fittings	Zimbabwe = through clearing account =	Hungary	agricultural systems and machinery, food processing plant, crop protection chemicals, midget power stations, machine tools, small telephone exchanges
46)	telephone apparatus and switchboards	Bulgaria	France	telecommunications equipment factory
47)	paper, pulp	Czechoslovakia	Austria	paper mill at Ružomberok
48)	ships	GDR	Libya	oil

d) Multiproduct arrangements

	Product specification	given away by	to	in lieu of payment for
49)	sawn wood	GDR	Austria	forestry equipment and manpower
50)	mining equipment	Poland	New Zealand	600 tons of lamb ($ 1 million)
51)	manufactured goods, weapons (worth at least $ 120 million)	Netherlands	USA	air defence system ($ 300 million)

GLOBAL SPREAD OF COUNTERTRADE (as of August 1984)

1) Countries with countertrade regulations:

Bolivia	Israel
Colombia	Malaysia
Costa Rica	Mexico
Czechoslovakia	New Zealand
Ecuador	Rumania
Honduras	Uruguay
Indonesia	Yugoslavia

2) Countries where countertrade regulations are expected to be announced soon:

Guatemala	Sudan
Kenya	Tanzania
Mozambique	Zambia
P.R. of China	Zimbabwe

3) Countries applying countertrade without explicit regulations:

Albania	Guyana	Philippines
Algeria	India	Poland
Angola	Iran	Saudi Arabia
Argentina	Iraq	Senegal
Bangladesh	Jamaica	Somalia
Brazil	Jordan	South Africa
Bulgaria	Malta	Sri Lanka
Burma	Mongolia	Thailand
Burundi	Morocco	Tunisia
Cuba	Nicaragua	Uganda
Ethiopia	North Korea	Upper Volta
GDR	Pakistan	USSR
Ghana	Peru	Vietnam

Countries (1-3) officially or tacitly applying countertrade are potential Third World Bank clients for clearing, trading and short-term financing!

4) <u>Countries neutral toward countertrade</u>:

Botswana	Paraguay
Cameroon	Sierra Leone
Chile	Taiwan
Guinea	United Arab Emirates
Hungary	Venezuela
OECD except New Zealand	Zaire

5) <u>Countries objecting to countertrade</u>:

Gabon

Ivory Coast

Malawi

Nigeria

Turkey

III IMPLICATIONS FOR THE THIRD WORLD BANK

There are three functions which the Third World Bank could perform in special transactions as listed in the preceding chapter:

(a) clearing of export claims and import payments,

(b) trading, that is, mediating buyer and seller of goods,

(c) short-term financing.

Obviously, any of these functions may coincide with another.

Clearing

1) The exporter presents the documents giving right of title to the export goods to his home or central bank.

2) The exporter's bank forwards the documents to the importer's bank for checking while the goods are underway.

3) The exporter's bank transmits via telecopier a face (master) form, giving the essential details of the documents and the export receivables, to the Third World Bank.

4) The importer's bank blocks the equivalent of the documents in the importer's account.

5) The importer confirms accordance of the documents with the taken goods and instructs his home or central bank to release payment.

6) The importer's bank authorises via telecopier the Third World Bank to effect payment according to the face form on file.

7) The Third World Bank advises by telecopier to the exporter's bank of the credit entry of the export proceeds.

8) In regular intervals, for instance monthly, the Third World Bank mails statements of account to the clearing participants for reconcilement.

9) Credit and debit balances are subject to interest payment.

10) A limit of amount and period for overdrafts is stipulated for each clearing participant.

11) Debit balances in excess of the stipulated overdraft time limit can be requested in hard currency from the debtor by the Third World Bank at the end of the overdraft period limit.

12) Credit balances can be withdrawn by the holder at one week's notice and be converted in hard currency.

13) An overall country exposure limit is set, immaterial of whether there be only one or several clearing participants of the same country.

The obvious advantage of a third world clearing system is manifold:

a) for the importer's home bank, no involvement in the struggle for hard-currency allocations from the central bank of the importing country;

b) for the exporter's and the importer's home bank likewise, no involvement in the checking of the export documents;

c) for the exporter, no undue period for the collection of his export proceeds;

d) for the importer, no undue period for the blocking of the equivalent of the documents (such as in the case of a letter of credit);

e) for the Third World Bank, no involvement in the checking of documents and collecting of receivables from the importer;

f) for all parties involved, no exposure to the fluctuation of currency exchange rates - the clearing unit would be pegged to an internationally respected unit which neutrally reflects the net value of the world's currencies (such as the International Monetary Fund's SDR = Special Drawing Rights).

Trading

1) The holder of the right of title to goods informs the BCC office closest to him of his sales interests.

2) The BCC office relays the inquiry, with all the product specification, to the Third World Bank's Division for Special Transactions.

3) The Division for Special Transactions identifies, with the help of its traders data bank, potential buyers of the goods on sale.

4) The Division for Special Transactions makes as many contacts among the potential buyers as necessary to mediate the sale of the goods.

5) The ultimate buyer of the goods opens via the Third World Bank a letter of credit in favour of the seller.

6) Alternatively, if the buyer's name should be disguised to the seller to secure repeat business for the Third World Bank, the buyer opens a letter of credit in favour of the Third World Bank, and the Third World Bank opens a letter of credit in favour of the seller.

7) If the seller's name is to be withheld (which only makes sense for goods without mark or identity), the Third World Bank will also act as go-between in the flow of payments.

The advantage of trading (mediating) is:

a) for the seller, to make use of the Third World Bank Division for Special Transactions' traders data bank, which gives him access to contacts he could hardly ever establish himself;

b) for the buyer, to learn of a new reliable - and possibly low-price - source for his purchases;

c) for the Third World Bank, to secure income from the letters of credit and the commission for having mediated in the commercial deal.

Short-term financing

1) The Third World Bank learns of an export capacity which does not materialise.

2) It investigates the reason of the failure.

3) In case the given export product needs minor improvements or upgrading to attract buyers, the Third World Bank extends short-term financing against part of the upgraded output as collateral.

4) The Third World Bank Division for Special Transactions helps to find markets for the upgraded output and secures repayment of the short-term financing from the sales proceeds.

The advantage of short-term financing for export improvement is:

a) for the exporter, to make its product more saleable on foreign markets and to generate long-term hard-currency income;

b) for the Third World Bank, to secure income from the short-term lending and the mediation of the export business.