

## Countertrade



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## Introduction

Countertrade is generally viewed as an international strategy with elements of international trade, licensing, foreign direct investment and international finance (Lecraw, 2004). The most common forms of countertrade are:

- 1) Barter
- 2) Counter Purchase
- 3) Offset
- 4) Buy-back
- 5) Switch Trading

Barter is the oldest form of countertrade. It involves the straight exchange of goods for goods with no exchange of money. Counter purchase usually occurs at a state level and requires a seller to purchase a certain amount of goods from the country that purchased its products (Monczka et.al, 2010). Offset is the most common form of countertrade and usually involves government and/or military exports. It is similar to counter purchase but the seller is required to buy from any company or industry in the country (Pooler, 1992; Leenders et al, 2002; Lysons and Farrington, 2016; Monczka et al., 2010; CIPS: Countertrade).

As an example, Libya required foreign contractors to invest back in the country in exchange for large payments for military or civil aerospace deals, but many foreign contractors find it difficult to fulfil these 'offset' countertrade obligations (see Financial Times, 2007). The term 'buy-back' is the American equivalent of the European term 'compensation trading', an agreement in which the seller agrees to buy back some of the production from a plant or technology which was initially sold in the original transaction. Switch trading is a countertrade, which occurs when a selling company agrees to accept goods from the buying company as partial payment. If the company does not need these goods it can sell the credit for these goods to a third party trader, who charges a transaction fee (Monczka et.al, 2010).

Within companies countertrade is handled by either a especially created countertrade office or department, or by the purchasing department. The purchasing function is needed in order to determine the market or sales value of countertrade deals, to select appropriate products to fulfil countertrade requirements, and to identify supply sources that will help satisfy any countertrade requirements that occur through the sale of its product (Monczka et .al., 2010).

The most straightforward form of countertrade is the full compensation arrangement, where a single contract is established between two parties, and goods are exchanged for other goods. Of course, it is unlikely that a coincidence of wants will be experienced in practice, and one party to the transaction is likely to need to sell the goods received under the contract.

When British Aerospace supplies military aircraft to Saudi Arabia in exchange for oil from that country, or a European car maker sends vehicles to a South American country in exchange for sheepskins, it does not mean that the supplying company is likely to have a use for the materials exchanged. What happens under a full compensation arrangement is that the goods are valued in money, and the party that wishes to liquidate the materials received will do so by arranging for the sale of goods, usually with the assistance of an experienced third party. (Bailey et al 2015 )/Emmett, S., Crocker, B. (2010) .

## Definition

Countertrade refers to "international and domestic trade where buyer and seller have at least a partial exchange of goods for goods" (Monczka et.al, 2010:248).

## Successful Application

Leenders et al. (2002) suggests that entering a countertrade agreement requires the implementation of the following steps: 1) decide whether countertrade represents a viable alternative, 2) consider the cost of countertrade in the selling price, 3) research the country in question (e.g. government, politics, laws, regulations); 4) research the products involved to know exactly what is available.; (5) learn every detail about the countertrade negotiation process and what it may involve (e.g. offset percentage, penalties, time period) (Leenders et al., 2002).

## Steps to Successful Application

- Before entering into the countertrade agreement ensure that its benefits outweigh costs.
- Develop a countertrade strategy, including the development of foreign countertrade suppliers.
- Explain to top management the task involved and outline potential benefits of countertrade to the company.
- Develop an organisation structure to support countertrade agreement.

*Pandey (2007)*

## Hints and tips

- Consider the risks and weaknesses associated with countertrade. Purchasing and supply management professionals and departments should get involved in the transaction from the proposal evaluation stage (Leenders et al., 2002; CIPS: Countertrade).
- Countertrade arrangements are only professional and ethically acceptable if all parties enter into the arrangement freely and transparently, with no form of coercion involved (CIPS: Countertrade).
- All issues that arise in countertrade-based relationships should be carefully studied and considered (CIPS: Countertrade).

## Potential Advantages

- Countertrade is sometimes the only way to make sales to markets in poorer countries and to markets that would otherwise be inaccessible (Pooler, 1992; Monczka et al., 2010).
- Countertrade increases the certainty of future sales and business deals (Pooler, 1992).
- Countertrade may provide the opportunity to develop lower cost sources of supply in the global marketplace (Leenders et al., 2002).

## Potential Disadvantages

- Countertrade imposes a risk of 'product-dumping' or being tied to unwanted or low-quality products (Pooler, 1992; Leenders et al., 2002; Lysons and Farrington, 2016).
- Countertrade may limit the firm's possibilities to pursue other, more profitable purchasing options (Pooler, 1992).
- Countertrade usually requires very extensive and complex negotiations (Pooler, 1992; Lysons and Farrington, 2016).

## Performance Monitoring

- Offset percentages (Leenders et al., 2002).
- Penalties (Leenders et al., 2002).

- Time period of the agreement (Leenders et al., 2002).
- Volumes/quantities/amounts traded /repurchased (Pooler, 1992; Lysons and Farrington, 2016).

### Case Studies

- In order to offset the trade imbalance caused by the significant cash outflow from the importer's economy, companies that export products are often compelled to invest in the country to which they have sold the arms or aircrafts. Consensus Group, a company with many commercial and residential property interests, is believed to have invested more than £12m in a range of defence, cyber security and intelligence companies over the past four years (The Times, 2011).
- In 2006, under the countertrade sugar swap program (CSSP) between the Philippines and the US, the former exported 50,000 metric tons of raw sugar to the United States as part of the US government's effort to stabilise sugar supply following the destruction of US sugar crops by typhoon Katrina (Philippine International Trading Corporation, 2006).
- Under the swap countertrade agreement Soviet oil used to be shipped to Greece (instead of Cuba) and Mexican oil was shipped to Cuba (rather than Greece), thus achieving considerable transportation costs savings (Lysons and Farrington, 2016).

### Further Reading/References

#### Web Resources

- Global offset and countertrade association (GOCA) <http://www.globaloffset.org/>
- London countertrade roundtable <http://www.londoncountertrade.org/links.htm>
- European club for countertrade and offsets (ECCO) <http://www.ecco-offset.eu/>
- Barter News weekly <http://www.barternewsweekly.com/2010/03/11/what-is-counter-trade-1851/>
- Asia Pacific countertrade association (APCA) <http://www.apca.net/>

#### Books

- International Countertrade, Korth, ISBN 978-0899302133
- The Economics of Offsets, Martin, ISBN 978-3718657827
- Countertrade, Barter Offsets, Verzariu, ISBN 978-0070673311
- Contracts in Trade and Transition, Marin, ISBN 978-0262133999
- Compensatory Trade Strategy, Akhile, ISBN 978-0595359226

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- Emmett, S, Crocker, B, (2010) Excellence in Global Supply Chain Management Cambridge Academic
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- CIPS: Countertrade.
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- The Times (2007) Tchenguiz ties up Libya venture. September 9th.

### Video

- The new age of bartering  
[https://www.youtube.com/watch?feature=player\\_embedded&v=kGMtyCX\\_DPY](https://www.youtube.com/watch?feature=player_embedded&v=kGMtyCX_DPY)

