THE USE OF COUNTERTRADE: ADVANTAGES AND DISADVANTAGES FOR COMPANIES

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ABSTRACT: *When we refer to countertrade transactions, we talk, in fact, about the possibility to trade worldwide otherwise than by using the monetary element as trading tool. Countertrade transactions eliminate the shortcomings of currency deficiencies, regardless of the cause element. The main objective, worldwide, is to support and increase the efficiency of export and especially that of those countries overproduction is very common. This activity has a number of advantages and disadvantages, which have grown continuously, with an increasing coverage area, being expressed in various forms, supported, in their turn, by a variety of bodies. The problems approached in this article focus on these aspects, as well as on the connections between them and aim, among others, to review the forms of these trade operations and to highlight their advantages and disadvantages.*

KEY WORDS: *countertrade, transactions, offset, parallel transactions, buy-back.*

JEL CLASSIFICATIONS: *F13, L14, M52, P33.*

1. INTRODUCTION

The trading activity as a whole has been carried out since ancient times. Initially, various commodities were traded which represented, at that time, the reference directions in the life of the trading communities: silk, spices, fabrics, animals, etc. Later, due to the development of the communities, the trading activity acquired new valences. Thus, commercial transactions have now reached the point where they allow for the exchange of food products, equipment (from the most different categories and with the most various uses), precious metals, electronics, etc.

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Countertrade transactions are a form of international business. They are viewed as an economic response to the imperfections of the markets, and companies should acquire or develop the tools and resources required to avoid traps and overcome the involved disadvantages.

Countertrade is not a new phenomenon in the international trade, on the contrary, it developed shortly after the Second World War on the background of the lack of available capital in a Europe torn by the war.

Countertrade transactions consist of “linking the sale to the purchase, the import to the export, with the purpose of ensuring well-balanced commercial exchanges between the respective partners, implying the elimination or reduction of currency as means of payment, and replacing it with mutual exchanges of goods and services” (Vișan, 2009, page 237).

2. STAGE OF KNOWLEDGE

The specialised literature deems that countertrade transactions are not a temporary phenomenon, ad their use “is a way to add significantly to shareholder value by providing opportunities for overcoming market imperfections” (Aggarwal, 1989, pp. 81)

A few cases of market imperfections to which a good response would be resorting to countertrade are: shortage of convertible currency, information asymmetry that may create the so-called lemon problem and moral hazard.

Yavas and Freed (2001) analyse countertrade transactions as a solution to the lack of cash that can be faced by companies and highlight the fact that certain countries (such as Romania) have programmes in place that facilitate the funding of the goods and services which constitute the object of international trade.

Romania’s national export strategy for the 2014-2020 period considers the funding of trade, the increase in capacity and the diversification of the supply in the national financial sector as a strategic aspect and takes two objectives into account:

” 1. Avoiding a policy that could lead to high fluctuations of the exchange rate that affects export, and ensuring a predictability and stability of the evolution of national currency rate, according to the best practices of the world central banks;

2. Maintaining the dialogue and partnership between exporters’ associations and commercial banks, with the purpose of finding the best lending solutions especially for exporting small and medium-sized enterprises”.

Aggarwal (1989, pp.80) believes that countertrade transactions should start “with an assessment of the range of goods to be exported or imported using countertrade, along with an overall analysis of the corporate need for countertrade” and recommends that an internal department of the company should assess and manage the risks involved in transactions of this type.

Răvaș (2011, pp. 232) highlights “the important role of the barter agreement over traditional credit arrangements. The main difference between a promise of future money and a promise of future goods is that goods have superior credit enforcement properties as compared to money”.

Kerres (1991, pp. 174) believes that the (former) communist countries and the less developed countries in the Third World represent the two areas of the development of countertrade transactions and that "despite the astounding political developments of the past year, countertrade will continue to play a very significant role in world trade". Renforth and Bates (2015) mention "countertrade has rapidly grown to one-third of all world trade" and also that "Half of the countertraders reported a high level of satisfaction, while one-quarter reported serious problems such as delivery delays, delays in finalizing agreements, and product quality".

Paliu-Popa (2010, pp. 215) believes that countertrade "have also become very attractive for various multinational companies, which can use globally their networks of contracts in order to dispose of the goods purchased by this technique".

3. TYPES OF COUNTERTRADE TRANSACTIONS

Countertrade transactions have the following basic characteristics (Vișan, 2009, page 237):

- their content is constituted by the exchange of goods for goods which has evolved, over time, from its primitive form (when it preceded the emergence of money) to the current form: commercial offsets, industrial offsets, etc.
- the mechanism of countertrade transactions conditions the flow of goods and services between two or more parties, and the legal basis of this type of transactions is represented by the export and import clearing contract, the barter agreement, the clearing agreement;
- the area of countertrade transactions comprises: commercial compensations in the form of goods offsets and parallel operations; industrial offsets in the form of buy-back transactions; financial offsets in the form of clearing-based switch operations.

The most known forms of countertrade transactions found in the studied specialised literature can be synthesized according to figure 1.

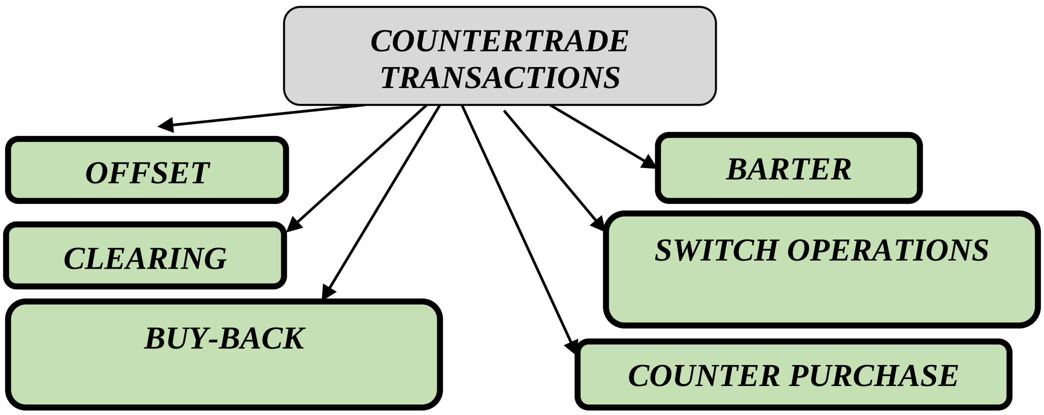

Figure 1. Forms of countertrade transactions

The system of countertrade transactions has not been unanimously accepted. The pros and cons, according to specialised surveys (www.balance.com) as a whole, refer to the following aspects:

- provides companies with the possibility to finance their exports when they have no other resources;
- helps countries that do not have sufficient resources at the level of foreign exchange reserves;
- the traded goods might have defects;
- need high investments for the trade of commodities, investments that require money and time;
- is an attractive financing system for companies, especially for multinationals.

In **barter** transactions**,** goods and/or services /are traded for other goods and/or services with the same value. This type of transaction does not include the monetary element and is one of the most known trading methods, being found especially at the level of small and medium-sized enterprises in poor or developing economies. These relationships are highlighted in figure 2.

Figure 2. Structure of the barter transaction

On the other side, we can find the **switch** that can be performed in two versions: with or without a switch dealer. In the simple version, the switch involves a countertrade transaction performed with the help of a third party. If the seller does not want to receive the goods offered by the buyer in exchange, they can resort to a third party who can sell the goods in question, thus receiving the equivalent value of the goods resulting from the sale. The structure of this type of switch is presented in figure 3.

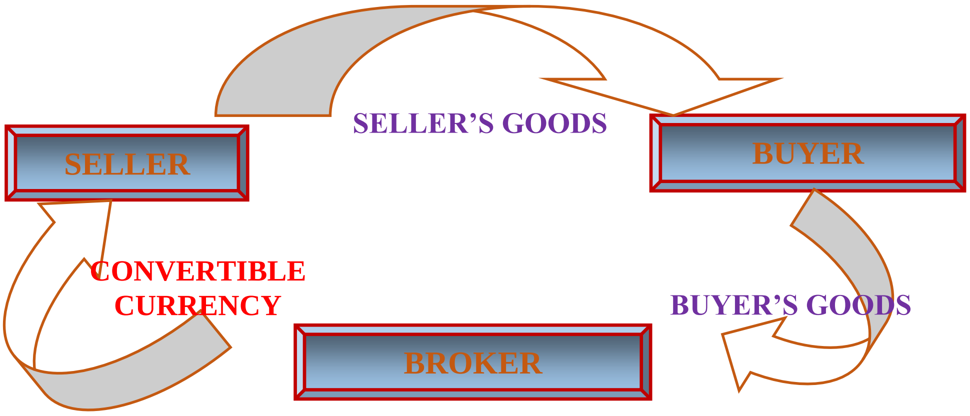

Figure 3. Structure of the simple switch

In the traditional version, the third party will resort to a switch dealer who will make the actual payment to the exporter, minus the commission owed to the dealer, this situation being illustrated in figure 4.

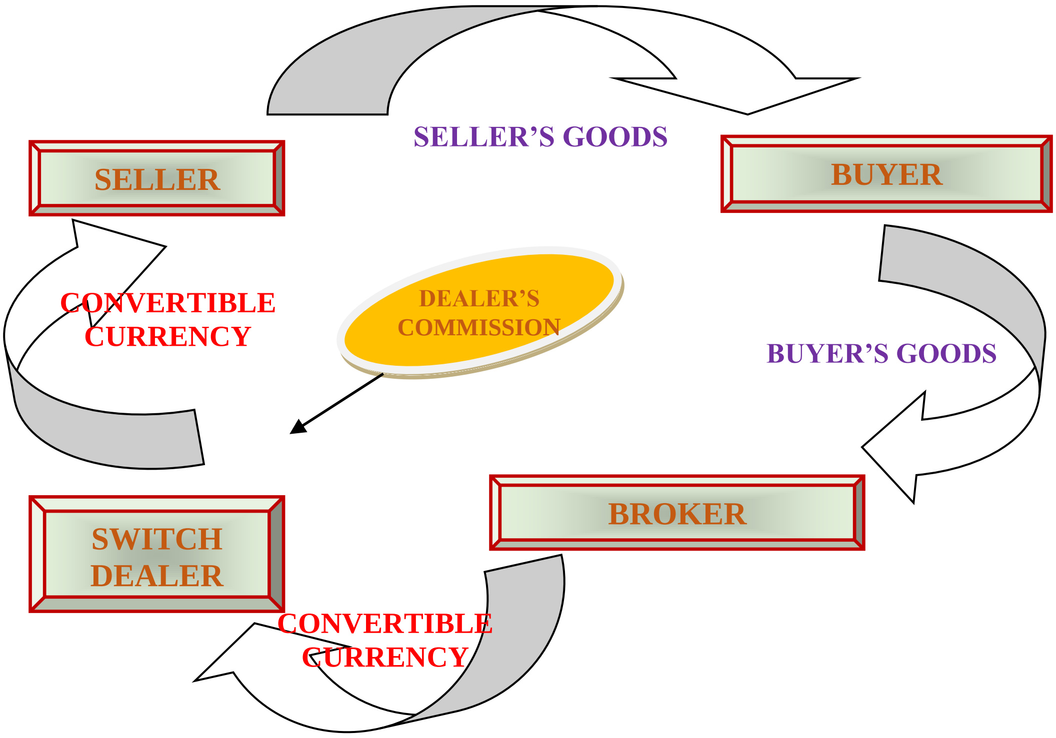

Figure 4. Structure of the traditional switch

In **counter-purchase** transactions**,** the seller receives the equivalent value in money, but undertakes to spend an equal amount in the buyer's country in a certain period of time. Unlike the barter, the contracting parties pay the transactions in a currency but undertake to fulfil their counter-buying actions. This type of transaction is also referred to as **parallel transaction**. In this case, we are talking of the existence of two different contracts (figure 5).

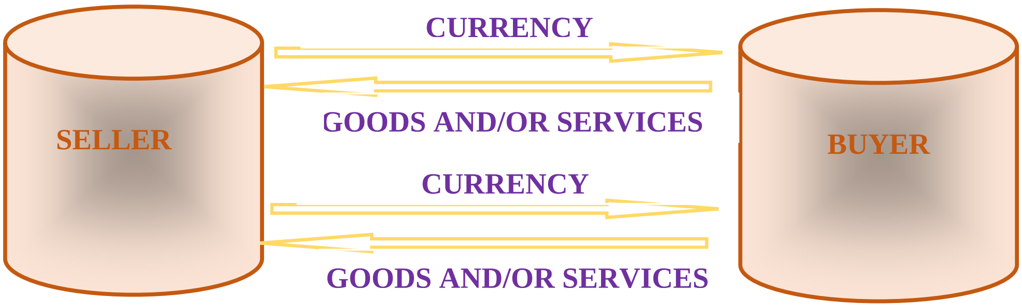

Figure 5. Structure of the counter-purchase transaction

The offset is a transaction that is closely related to exports with a very high value and/or capital goods of medium/high level of the embedded technology supplied by a multinational or by an important manufacturer (coproduction, technology transfer, production by subcontracting, research and development by license production or patent agreements, etc.).

In practice, there are two forms: **the direct form** and **the indirect form**.

We refer to a **direct offset** when part of the goods' components which constitute the object of the transactions are to be manufactured in the buyer's country of origin, and the seller agrees to buy them and use them afterwards (figure 6).

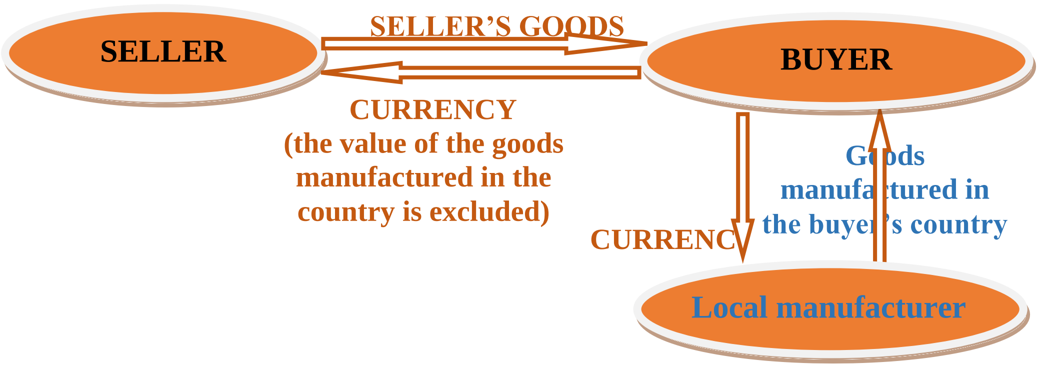

Figure 6. Structure of the direct offset

The indirect offset implies the buyer's request to the seller to get involved in a cooperation relationship at industrial level, or an investment in the buyer's country, but which has no connection to the goods that constituted the object of the transaction (figure 7).

Regardless of the form of manifestation, the interest areas are represented by defense, telecommunications, or the aerospace industry. At international level offset represents 20% - 30% of the overall value of the transaction.

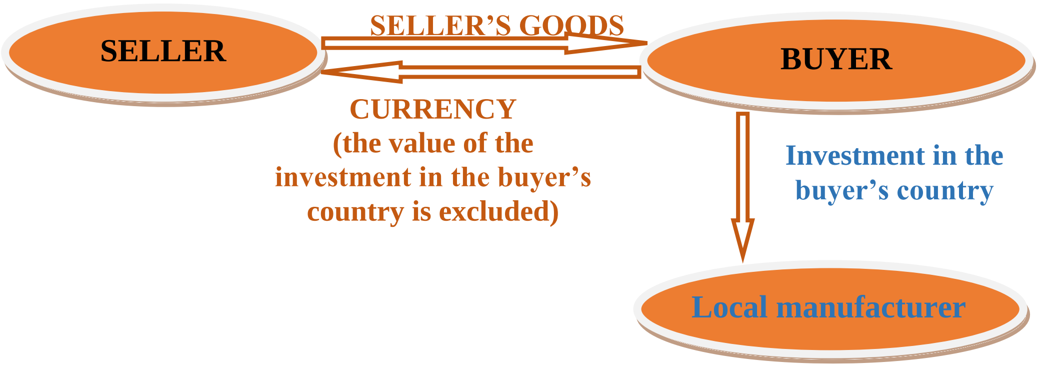

Figure 7. Structure of the indirect offset

In the case of **buyback** transactions, the seller supplies equipment, installations or technology, and agrees to receive as payment the products obtained by using the equipment, installations or technology along with money. These transactions are concluded in the long term and for high financial values. The seller receives the payment partly as goods (goods manufactured with the items that represented the object of the transaction) ad partly as money (figure 8).

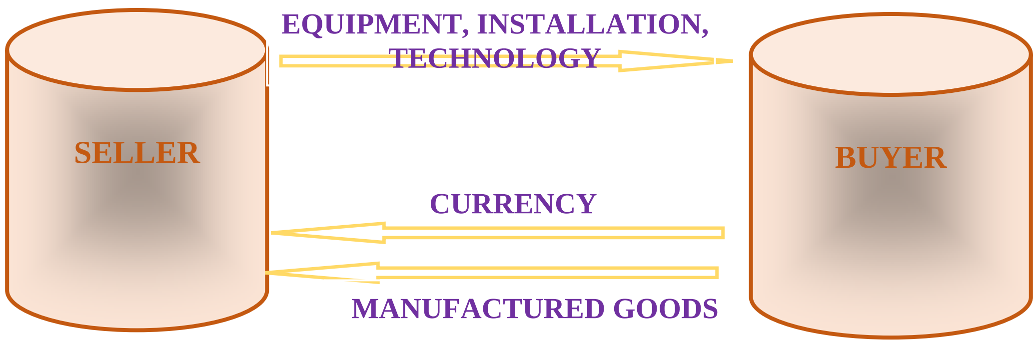

Figure 8. Structure of the buyback transaction (offset)

Certain authors approach offset and buyback separately, viewing them as two distinctive categories, while other authors believe that the two categories of transactions are one and the same thing (Hill, 2013, Khandelwal, 2007). The latter believe that buyback is in fact a form of offset, because the payment is partly made in goods and partly in money.

4. CONCLUSIONS

In the case of the countertrade transactions presented in the specialised literature, we identified the following advantages and disadvantages for companies.

a) Advantages

- The access is provided on markets that are generally hard to penetrate;
- It can determine an increase in the trading exchanges;
- A number of financial problems are overcome, such as: the control of the foreign exchange rate, the foreign exchange rate, lending;
- Allows for the use of the maximum capacity of a company;
- It allows for selling products the demand of which is declining;
- Provides attractive investment sources;
- Obtaining a competitive advantage over competition.

b) Disadvantages

- big time consumers and the need for complex negotiations;
- lack of flexibility
- a narrow category of products can make the object of these transactions;
- uncertainty;
- high costs;

- brokerage costs;
- the difficulty of selling goods through “OFFSET”;
- the access to a business system in which the company is unexperienced;
- high risk in selling commodities;
- customers are not allowed access to domestic products.

Countertrade transactions can therefore be viewed as a company strategy, but they also have to take into account the involved risks or disadvantages, not only the advantages.

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