STATEMENT

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Professor Soltysinski has suggested that the words "countertrade" and "compensation", which have replaced older terms such as "switch deals" and "barter", are used in a pejorative sense. I do not use them in that sense at all. They describe existing forms of trade which, when considered objectively, can be of mutual advantage to the parties involved. I must take issue with the Professor when he challenges the assumption that countertrade is usually more advantageous to the Eastern exporter than to the Western firm involved. There are, no doubt, cases where countertrade is more to the advantage of the Western firm, but studies show that about 80% of the time compensation is asked for by the Eastern partner.

Although Western firms may be willing to go along with countertrade deals, there is little doubt that they would in most cases prefer "normal" trade. The kinds of difficulties firms experience may be summed up under four main headings.

(1) Pre-contract negotiation. Negotiation of countertrade deals can be so complex that one wonders how they ever are concluded. In fact, many firms, especially smaller ones, are so discouraged by their experiences that they refuse to engage in East-West trade at all.

(2) Identification of counterproducts. East European countries have particular trouble identifying suitable products for use in counterpurchase. Quality, packaging, and servicing are often uncertain, even when a product is found which the Western firm can sell. In addition, counterproducts may suddenly become unavailable.

(3) Pressure to engage in countertrade. In recent years, pressure from non-market economy countries to engage in countertrade has increased in many ways. Some examples of that pressure are demands for higher compensation ratios, shorter time-limits for the completion of contracts, higher penalties for nonfulfillment, and insistence on countertrade for even the most routine sales, such as service contracts and spare parts.

(4) Impact of counterproducts on the home market. Finally, there is the

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problem of the impact of counterproducts on the Western market, especially if they are imported at low prices to help offset the additional costs involved in countertrade. Counterproducts may cause or threaten to cause market disruption for which the importer may face antidumping and other defensive actions.

What should we, as Western governments or the European Community, do about countertrade? First, I agree with those speakers who have said that countertrade is initially a question of commercial judgment to be decided by the firms themselves. I do not think that either the Western governments or the Community want to prevent or encourage such deals, or to impose some kind of code of conduct on firms which engage in countertrade. Does this mean, however, that Western governments should do nothing to point out to East European countries the difficulties which are created for East-West trade by countertrade practices? Does this mean that governments should do nothing to help firms, especially small firms, which are faced with these difficulties? These are issues that we must address.

An important issue, raised by Professor Löwenfeld, concerns the ability of Eastern enterprises to insulate themselves from antidumping actions by arranging prices with their Western partners through countertrade. In certain sectors there seem to be significant price declines which do not give rise to complaints from the Western producers, presumably because these producers are themselves involved in countertrade deals on the products in question.

Finally, there is the larger issue of the political impact of a country's involvement in countertrade and the extent to which participation in East-West trade and cooperation blunts Western responses to unacceptable political developments in the East. In light of President Reagan's latest announcement assuring continued grain sales to the Soviet Union, it does not appear that involvement in long-term economic cooperation has forced the President to moderate his stance toward Soviet political activities. There is no reason why we should not combine trade with the East with vigorous condemnation of their political system when necessary.

Like Professor Löwenfeld, I agree with those who think and hope that the development of East-West trade will facilitate East-West political relations. Although the tendency has been the other way in recent years, the process is bound to be a long one, with many ups and downs. Nevertheless, we should not give up the hope that in the long run, East-West cooperation in the economic field will ease the tension between the two systems.