

## THE JOINT COMMERCIAL OPERATIONS AS A TOOL TO AVOID LIQUIDITIES IN THE CURRENT CRISIS CONTEXT

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### **Abstract**

*The main joint commercial operations are counterpart, re-export and switch operations. Regardless of the evolution of barter, these arrangements may be made at the firm level, as well as at the governmental one. Delivery in counterpart has extended relatively a lot in the contemporary international trade and it implies the elimination or the reduction of the traditional paying tools and its replacement with the exchange of goods and services normally sustained by financial deals.*

*The counterpart operations are mainly based on the oldest form of trade – the barter (exchanging goods for goods) which precedes the use of money. The barter as an arrangement between Governments of different countries has some specific features such as: the high value level of the occasional barter exchanges, the long-term convention, an agreement regarding different safeguarding stipulations.*

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The joint commercial operations represent international affairs that unite import and export operations, performing services, etc. within an unique transactional mechanism, conceived and performed by compartments of foreign trade and by companies specialized in this domain.

These combined operations developed within the foreign trade especially in the 8<sup>th</sup> and 9<sup>th</sup> decade of the 20<sup>th</sup> century and they are still maintained in the present as a form of transactions adapted to specific directions of the international economic relations.

The development of this type of operations is based on several factors:

- Commercial migration – the concern of the foreign trade firms to offer new modalities of promoting transactions and increasing profit.
- The differences regarding the level and the performance between the countries that take part in the foreign trade processes.
- The geographical position in comparison with the trade partners.

- Differences and flaws within the market mechanisms between different countries.
- The general judicial regime and the commercial regime in different countries.
- The commercial and currency policy in different states.

The combined commercial operations are particularized by the following aspects:

- The judicial basis of the operations is normally created by two or more contracts that are somehow bonded and contain some elements specific to several types of contracts.
- The transaction has a higher risk degree, which has a commercial or an extra commercial root.
- Performing the transaction implies a real professionalism.

The main joint commercial operations are counterpart, re-export and switch operations, which have a series of common characteristics, placing them into a special category of the foreign trade techniques:

- joint operations putting together elements specific to production with elements specific to commerce, as well as elements related to the traditional import-export process with counterpart or, in some cases, with economical international cooperation, financial-banking combinations etc., leading to certain specific elements in the commercial and the financial-banking mechanism;
- economical business generally done by specialized firms that act as recognized representatives with a highly recognized competence in international trade, agents of international trading – trader – or as independent firms. In some cases, banks are also involved – *switch*;
- the content of the operations is mainly shaped by making profit in foreign currency, by acts and facts of trade, in some cases of production as well, often having as object goods from a third party.

Delivery in counterpart has extended relatively a lot in the contemporary international trade and it implies the elimination or the reduction of the traditional paying tools and its replacement with the exchange of goods and services normally sustained by financial deals.

The counterpart operations are mainly based on the oldest form of trade – the barter (exchanging goods for goods) which precedes the use of the money. This type of trade developed especially during periods of monetary instability in areas where there are not enough liquidities, in countries with a weak currency not convertible, and it appeared as an attempt of finding a solution to lower the effort and the currency risk.

The counterpart operations are known as modalities or mechanisms that condition the flow of goods and services between two or more partners. The notion of counterpart is used in the specialist literature with two meanings:

- 1) generally, it refers to the compensatory engagement by which the exporter is contractually obliged to make income for the importer. The main purpose of these operations is to reduce or to eliminate, in a certain period of time,

the net payment in the currency of the importing country. In this sense, the counterpart contains joint commercial actions – compensations and parallel operations – as well as operations in the international cooperation area such as: sub-production, co-production, licensing etc.;

2) in a more narrow sense, the counterpart includes those transactions where a connection is compulsory by contract, a conditioning between the import and the export flows, respectively the barter and the parallel operations.

Although the counterpart has many forms, they have a common element: the direct, complete or partial compensation of an import made by a partner through an export made by the other partner.

Several factors contributed to the extent of the counterpart operations:

– conjectural factors:

- the lack of the currency resources;
- significant changes of the currency (currency risks);
- external debts;
- significant deficits in the balance sheets;
- rising the price of the power and raw materials in the 70s.

– technical factors:

- the combined operations can be used as an easy and efficient method to reduce some surplus without reducing the price;
- the effect of rising price due to inflation can be reduced;
- they are used in addition to selling-buying transactions.

The trade by counterpart has different approaches and each of them has its specific deployment techniques. The main approaches to make an exchange in counterpart are:

The *barter*, the compensation operations, the *clearing* agreement, the *buy-back*, *switch* operations, *off-sets*.

The compensation operations involve a transaction where the export is totally or partially paid by the delivery of goods that the importer makes. The main operations of this type are:

- *the total compensation*, where the value of the export of goods is totally covered by an equal import of other goods;

- *the partial compensation* – the partner who does not have enough money to pay for the imported goods agrees with the other partner to paying a part of the imported goods in foreign currency;

- *the clearing agreement* may be defined as a compensation of a claims ensemble that has the roots in the mutual goods and services delivery between two or more countries without making the currency transfer. The paying clearing system implies a mandatory agreement between the participant states. The judicial framework that the Government has created all the natural and all the legal compels people to comply with it in the respective country. Moreover, it establishes some restrictions regarding the way the traders execute the import-export activities. This is why the IMF recommends the members not to use this payment modality. By 1990, Romania had many *clearing* agreements that were gradually eliminated.

**The switch operations** are a specialized form of trading normally used in case of some unbalance between the *clearing* accounts during the process of bilateral trading. Balancing the clearance sale is made by a specialized firm that, by switch operations, identifies a third country interested in the goods that the debtor country offers (unless the creditor country is interested in it).

Compensation within the cooperation operations – or buy-back – represents a form of direct compensation that the exporter of goods and high value technological equipment accepts as payment, in exchange of his exported goods, to import goods which had been made by using his equipment from the beneficiary. The framework agreement that is normally concluded at a governmental level is the basis of the two contracts: the delivery contract for some equipment goods (machines and tools, complex outfits, plants) and the purchase contract for some goods from the importer country, mainly resulted from efficiently using the imported equipment. The *buy-back* operations have mainly developed in the area of exploration and *exploitation* of the raw materials, in the area of developing the capacity to produce power, in the chemical industry, etc.

**The compensatory arrangements** or **the off-set** means an agreement between a firm that exports complex objects or high value equipment (military, aircraft industry or naval industry) and the importer country that pressures the exporter to accept the association of some firms from the importer country in order to make and to set working the objective, i.e. the delivered equipment. In this case, the operation is quite similar to the counterpart operations in its narrow sense (in compensation and parallel operations). The second type includes the arrangements that imply a direct participation of the firms from the host country in the achievement of the objective/equipment that is the object of the export. This is achieved through different ways: technological transfer, sub-production, co-production, capital investment.

The **barter** dates since the old silk roads, with its ups and downs. The method was strongly reinforced at the same time with the opening of the ex-Soviet Union and of the Eastern states to West – regions with a huge request of imported goods, but reduced funds.

The **barter** represents a global compensation performed between two firms from two countries, where each partner acts as an exporter as well as an importer. The value of the merchandise of both parties must be equal, no money is used and neither banking or credit system.

Generally, the barter is based on agreements between ministries and even between Governments. It is usually a short-term agreement that lasts one year at most. That's why some specialists consider that the barter is a short-term clearing. The barter is different than the simple compensations: its domain is a lot larger; the level of the institutionalisation is higher, usually involving factors of the public power as well. On the other hand, the barter has a more limited domain that refers to a group of measures, a number of firms, while the clearing is a truly global compensation at the level of a national economy.

The exchange report must be regulated – if prices can be established for some goods (raw materials, oil products, cereals) taking into consideration the stock

exchange, this possibility is not available for the manufactured goods. Thus, the manufactured goods might be overvalued.

At the end of the year, both countries will have regulated the exchange balance of the barter operations by payments in foreign currency or by transferring the debt into the next year account (the most common).

The banking institutions do not agree to the barter because it jeopardizes the general needs for banking services; still, some banks have come to the conclusion 'if you cannot destroy them, you would better join them'. Consequently, the banks set up special departments that are meant to deal with barter transactions.

The multilateral barter represents a stage in the evolution of this kind of operations and consists of exchange agreements among three or more partners. This category implies the participation in these operations of some firms in three or more countries. The goods delivery between the participants is like a close circuit. This is also the modality to terminate the financial obligations, thus currency deductions are avoided. In this case, the conditions are stipulated in contracts between the participants in different countries, since the operation is multilateral; the compensation is complete, and the compensation obligation is transferred from a firm to another, which increases the operation risks.

Regardless of the evolution stage and the form, the barter arrangements may be made at the firm level, as well as at the governmental level. The barter as an arrangement between Governments of different countries has some specific features such as: the high value level of the occasional barter exchanges, the long-term convention, an agreement regarding different safeguarding stipulations. Such agreements are quite common when we talk about the practice of the international trade relations in the developing countries. Their objective is mainly food products, ores, oil, chemical products in the light industry, agrarian equipment.

The difficult issue about negotiating the barter operations is the determination of the exchange report between the goods that are the object of the mutual flows. For the replaceable goods, the exchange report is calculated starting from the stock exchange quotation of the respective products. A common price does not exist for the manufactured goods; that is why we notice a tendency to overbid the price of these products in order to cover the specific operational risk and to gain unilateral advantages.

The transactions of products or services that are done as a corporative barter may value millions of dollars and they are, first of all, specific to large companies, especially advertising agencies.

The corporative barter society helps companies to use their inactive assets (e.g. old production, the surplus of proprieties not used) to finance the production costs (e.g. advertising), totally or partially.

Thus, a company that intends to sell the surplus of production, whether it is a tank or lipstick, relies on the corporative barter company that purchases this part of production. Among the most unusual offers for barter we may mention those that have as objective latter-day products: booking tickets for traveling, consultancy services, mobile phones, gadgets. Generally, the barter aims at lands and houses, holiday destinations within the same country or abroad, advertising media. We can

also mention the exchange between lands in the mountainous areas and houses at the seaside. Other products that are intensely transacted as barter are fishing products such as schedule charts for any month of the year, for any area in the world. This offer is estimated at 100 euros and the people who are interested must advertise the charts on the internet (sites, blogs, forums). Other advertisements are placed by people who offer web and project management consultancy in exchange for professional hosting, web design or server management services. The value of the business could rise to 1.000 euros. A corporative barter company buys and sells on its own, manages the transaction, but also has to deal with the trade credits.

The corporative barter, as we know it, has its origin in the 50's. At the beginning of the 70s, as a result of the American recession, many companies had production and industrial capacity excess, but financial resources limited. Thus, the advertising budget was very much decreased. Consequently, the ad space was unused. The time for advertising, as well as the space are 'perishable' products. The income from these 'perishable' products was almost zero. Some entrepreneurs started to change the surplus of products with this type of 'perishable' products.

Nowadays, the corporative barter activity is more sophisticated and **omnipresent**. The companies that deal with corporative barter are proficient at making millions of dollars from advertising of other products or services, by using the method of changing with the surplus of production or/and the surplus of production capacity.

In order to practice the modern corporative barter, we need:

- a financial solution;
- a trading method.

When the corporative barter first appeared in the 70's, it was a financial tool, a method that helped the companies with production surplus or obsolete products recover a part of their loss or even the entire loss getting in return ad space or other products or services that they should have paid cash for.

The corporative barter does not only offer innovative financial solutions for some companies, but it can also lead to the extension of the advertising or marketing domain of the companies. The corporative barter companies are accepted by the advertising agencies because they exchange ad space that values millions of dollars with services that they should normally pay for.

The weight that the corporative barter industry carries could mean that it is more profitable to use the barter method of trading than paying cash. For example, a chairs manufacturer with a production cost of \$25 sells a chair with \$50. If he exchanges chairs with ad space, he gets a 50% reduction for the ad space. The importance that the corporative barter has shows the report between the value of the ad that he gets by giving goods of 1 million dollars and the value that could be obtained if 1 million dollars cash was spent.

The barter is also efficient if a company decides to function in another country that does not have hard currency to pay for the products or services, but it holds goods and services for the exchange.

Nowadays, the barter has evolved in such a manner that it can be used to solve a big number of financial problems, but it is also an important marketing tool.

To get the total value of the obsolete products or of the surplus of products, the corporative barter can be a solution for:

- minimizing the loss caused by perishable products;
- reducing the stocking costs for the old products;
- extension of geographical allocation;
- entering new markets;
- increasing sales;
- minimizing the negative cash flow and generating the positive cash flow;
- using the surplus of production;
- doing market research and increasing the ad budget;
- solving the assets that are not paid off;
- reducing the corporative buying costs;
- obtaining equipment and active capital;
- purchasing real estate values;
- developing foreign trade.

During the current economic crisis and due to credit blockage, as well as lack of liquidities, which also creates a stoppage at the level of payments, the salesmen will shortly turn to the barter. The lack of liquidities can have a strong negative impact on the evolution of a company.

The barter is, thus, used as a tool that can balance the situation of a company by excluding the role of liquidities during a transaction.

Therefore, a company can use the necessary resources and, at the same time, it can dispose of liquidities to continue with the activity.

During this economic crisis, we notice a decrease of the input and a blockage in the economy. The lack of liquidities can be a cause as well as an effect with drastic consequences upon the standard of living and on the consumer request. In this context, the traditional form of barter will become an attractive practice that can compensate the current financial problems and stimulate the input. The barter can be practiced at any level, starting with exchange between personal services to avoiding stock blockage between companies.

Currently, we are witnessing to a larger number of barter transactions on the American market. The most popular ads site – craigslist.com – declares that the number of ads about barter transactions has doubled compared to the beginning of the year, while other sites of different specialties register double traffic compared to the previous month. This phenomenon proves that the barter is favoured by the current economic situation and is more and more used for that reason.

Of course, the biggest challenge about barter trading is finding the right partner. This is dramatically simplified by the existence of a common market where partners can be easily found among thousands of tenders.

The barter is a tool that helps a company grow during periods economically stable; but now, the need for this tool is even bigger.

The motivation and the advantages that might explain why the public as well as the private firms are so interested in counterpart are the following:

Monetary instability mainly invested in the fluctuation of currencies, the crisis of international liquidities, the inferiority that some countries are in because of lack of their own currency convertibility.

The advantage that the counterpart offers is that it involves some trading operations in cooperation actions, in production, science and technique, with small efforts for each of both partners. Therefore, counterpart is a trading form that may lead to a reduced currency effort.

We can mention the attempt to maintain and to develop good mutual relations within a balanced environment of goods and services flow by the clearing approach.

The diversification of the stock of goods for the market within a regional frame, with benefits for the consumer is another good point. This method is also a way of testing if certain products are internationally competitive.

The counterpart is not an expensive form of trading because it does not involve much marketing interference and a commercial system less complex than other trading forms require.

The counterpart has also some limits which explains why some businessmen are reserved about it:

- the harmony between the partners' interests about the merchandise that each of them holds can sometimes be unequal as quantity and the balance may get deteriorated;

- the value compensation of some merchandise exchange may be heavily done and in time, a certain imbalance that could stop these operations;

- some firms, especially in the developed countries, have the tendency to export processed goods that are technically passé in exchange for raw materials, which become more and more rare all around the world.

But, in spite of all these limits, the counterpart is still viable in trading. The counterpart operations can be classified as it follows:

- Considering the compensation degree of the merchandise or/and the services, there can be compensation that totally eliminates the currency or parallel operations functioning in an exchange, partially with merchandise or/and services and a part of the business including currency as an exchange term.

- Considering the numbers of the business partners, there can be bilateral counterpart operations in or multilateral counterpart operations. As for the economic and judicial level of the partners, there can be counterpart operations at the level of enterprises, of groups of enterprises or branches (barter) or at the level of states (clearing).

Exporters in counterpart enjoy of a wide range of options in the strategy of negotiating the transactions. The international practice shows that firms can choose one of the following formula or one of the formula combinations: negotiating some diminished imports in counterpart in exchange of some advantages offered to the importer that refer to:

- implementation of some work in common;
- training the personnel;



- the total or partial transfer agreement to the obligations of a third party in the counterpart;
- association to marketing decisions;
- trading on a third market.
- accepting a part of the export payment done in the importer's currency even if this is not convertible and cannot be transferred abroad, provided that the currency is used by the exporter for payments and investments in the importer's country;
- accepting a partial payment of the exporter in services offered by the partner in the import country or abroad especially services of constructions;
- providing the necessary assistance in order to identify business opportunities on foreign markets, thus the importer's benefits are used as a payment source for the exporter's deliveries;
- sub-contracting, licensing or investing in other projects from the importer country in the context of the exporter's obligations in counterpart.

An important strategic problem refers to the modality the counterpart is dealt with from the point of view of the organizational structures, used as a 'services support' of the transactions. In this sense, there are two possibilities:

- creating their own organizational structures (in-house formula);
- setting relations with an experienced house of commerce in counterpart.

The role of a specialized organizational structure is to assist the firm management in building and applying the strategy to participate in counterpart transactions and to implement this strategy in instructions and guidance for services/directions of the company.

Many firms would rather transfer the execution of the obligations in counterpart –obligations they have already been accepted in the contract with the importer partner – to a house of commerce, due to the experience and specialization this one has. One of the problems that may appear in this situation is the cost of the operation. For most of the cases, the house of commerce asks the exporter for a global payment, made up of two elements: the subvention that will be given to the final buyer of the goods as the object of the counterpart, and the commission, which must cover the debts of the house of commerce and bring a profit. Normally, a house of commerce asks for a 1-3 % commission from the value of the obligation in counterpart, but for high risk situations, the commission could rise to 4-5%. The subvention is a manner of promoting the sales for the merchandise in counterpart, so the house of commerce could offer a discount to the final buyer.

Normally, the house of commerce requires a global sum of 10% (subvention + commission); the firms that have a wide range of clients and their marketing capacity allows it; on the country, for a risky selling, the subventions are increased.

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