TRADING HOUSES/EXPORT MIDDLEMEN

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May 1972

TRADING HOUSES/EXPORT MIDDLEMEN

The terms "trading houses" and "export middlemen", can be interpreted to embrace a variety of functions. For purposes of their definition in the study, the prime criteria have been taken to be continuity and independence i.e., the performance of a continuing function by an agency on a basis which is independent of both producer and consumer. This excludes ad hoc export consortia, those groupings which are formed to take advantage of a specific marketing opportunity and then subsequently disbanded. The focus is primarily on those operations performed under the standard titles of "export commission agent" and "export merchant" although some attention has been directed to confirming houses. The latter have been included because they represent a significant British category and the most important financial service tied to marketing services.

The study examines the use of middlemen in three main functional areas:

- in capital projects marketing; to act as a "prime" in assembling project packages, rationalize company participation, minimize risk, etc.

- to provide export marketing expertise for small to medium-sized companies that do not have or cannot develop "in house" expertise, and
- in bartering and switch trading.

STUDY OBJECTIVES

Within these definitions the objectives of the study are:

- to assess use made of trading houses/export middlemen in the export trade of selected countries, notably Japan, Britain, and various European countries,
- to identify Canadian export middlemen and assess the use made of their operations in Canadian export trade,
- to assess problems faced by Canadian-based export middlemen in order to determine how their development might be encouraged to promote Canadian exports.

JAPAN

The 5,000 Japanese trading corporations presently account for 70% of total Japanese exports and 80% of total Japanese imports. Of these, the 21 firms with sales in excess of ¥100 billion account for 63% of total Japanese exports and 74% of total Japanese imports. The 13 firms with assets of more than

¥100 billion account for 58% of total Japanese exports and 67% of total Japanese imports. The top ten firms (by 1970 sales) are Mitsubishi with sales of $11.3 billion, Mitsui with sales of $10.4 billion, Marubeni-Iida with sales of $7.5 billion, C. Itoh with sales of $7.1 billion and (in descending subsequent order) Nissho-Iwai, Sumitomo, Toyomenka, Nichimen, Kanematsu-Gosho and Ataka.

An interesting aspect of the business activities of Japanese trading corporations is that, although they are better known for their foreign operations, their domestic business exceeds their foreign business. Thus, in 1970 domestic transactions handled by Japanese trading corporations represented 55% of their total business as compared to 40% for export/import trade (of which 18% was exports and 22% imports) and 5% for triangle trade. The domestic portion not only involves them in domestic trading but also in large venture capital undertakings such as housing and land development, ecology restoration, underseas resource development and the knowledge industry.

While trading corporations have in themselves undergone a unique development in Japan, a more significant aspect of the Japanese business structure is the unique series of inter-relationships which exist between government/banking/manufacturing and trading corporations. The first significant relationship is that between trading corporations and specific groups of companies, Mitsubishi and the Mitsubishi Group, Mitsui and the Mitsui Group, Marubeni-Iida with Fuji Group, Sumitomo with the Sumitomo Group, etc. The relationship is of course not in all instances exclusive. Clientele in many instances tends to overlap, one notable example of this being that both Marubeni and Mitsubishi service Mitsubishi Heavy Industries and Ishikawajima-Harima Heavy Industries and another in the use by other trading corporations of Nichimen for trade into Communist China. The relationships do however provide a fairly stable clientele core and a similarly stable core of trading income. This is also the case with smaller trading corporations which do not have a formal affiliation with a particular group of companies.

The second significant relationship is that which exists between trading corporations and Japanese banks. This is best illustrated by the fact that the Mitsui and Marubeni are the first and second largest borrowers from the Fuji Bank, Mitsubishi is the largest borrower from the Mitsubishi Bank, Sumitomo is the largest borrower from the Sumitomo Bank, Mitsubishi and Nichimen are the first and second largest borrowers from the Sanwa Bank, and Itoh and Nissho are the first and second largest borrowers from the Dai-Ichi Bank. The trading corporations thus operate as financial intermediaries. This position of influence started in post 1945 re-construction when corporate self-financing was difficult and banks imposed as a condition of lending that trading houses act as lending intermediaries to guarantee repayment.

Trading houses have as a consequence become involved in both export and production financing of small to medium-sized firms. This privileged financial resource position has also permitted trading companies to obtain equity holdings in Japanese growth industries and thus consolidate their marketing positions. An interesting aspect of their ability to pool financial risks through diversified operations is that this makes of them prime candiates for loans not only in domestic markets but also in international money markets, notably in the U.S. and Eurodollar markets. One of their main strengths has therefore been their ability to secure and channel financial resources in both domestic and international financial markets.

The third significant relationship is with manufacturing companies in general. Influenced both by lending positions and equity holdings of trading corporations, Japanese manufacturers have tended to specialize in production, leaving both raw material purchases and product sales to trading corporations. This is equally true both domestically and abroad although a higher proportion of foreign sales is channeled through trading corporations.

The fourth significant relationship is among trading corporations themselves. This is institutionalized in monthly meetings of representatives of the major trading corporations, with government representatives in attendance, to discuss common problems and progress in meeting the government growth goals.

One example of this co-operative relationship is in the response to a 1970 Chinese announcement cancelling dealings with trading corporations involved in trade to South Korea and Taiwan. In response to this announcement it was jointly agreed among trading corporations to split their trade, Nichimen dropping Korean and Taiwanese trade to concentrate on China, other trading corporations operating through Nichimen or other designate companies and the remainder dropping Chinese trade entirely.

The fifth significant relationship,and undoubtedly the most important in the Japanese economic structure, is that which exists between Japanese business and the Japanese government. The most obvious manifestation of this relationship is in the Supreme Trade Council. This organization,chaired by the Japanese premier, consists of thirty members drawn from government economic departments and from major business sectors and has as its function the allocation of world markets and the setting of export targets for every major product and country. This government/business relationship is continually maintained by officials from the Ministries of International Trade and Industry and Finance who confer periodically with business representatives on progress towards the attainment of goals. The Ministry of International Trade and Industry can even set standards on minimum plant size when it feels economies of scale are vital. The government position in the relationship is strengthened by the fact that the Ministry of Finance, through the Bank of Japan, can ensure that funds are channelled to areas of greatest growth and potential; since debt financing normally represents some 80 per cent of financial sourcing in Japan, this influence is paramount in structuring the industrial expansion that leads to export production. The relationship between business and government is also re-inforced by a close relationship between government and labour. Labour awards are made either on achievement or assumption of achievement of certain productivity increases (at least comparable to the awards granted). There has as a consequence not been a major strike since 1945.

The strength of the government/business relationship is also indicated from the legal right which exists with the Ministry of International Trade and Industry to prevent Japanese companies not members of a designated cartel from selling in an exclusive cartel market. With MITI sanction and protection these export cartels are developed by association between selected manufacturers and a trading corporation or a number of trading corporations to co-operate on penetration pricing and competitive tactics in a particular market. Through these cartels, companies that normally compete in Japan cooperate to rationalize export marketing. Examples include the combination of seven trading corporations with three companies to obtain a $100,000,000 pipe order for a trans-Alaskan pipe line. Another is a combination between Sumitomo and Mitsubishi to obtain a similar pipe contract in Ecuador.

These relationships support effective use of a variety of marketing techniques both by Japanese manufacturing companies independently and by Japanese trading corporations. The most notable of these include penetration pricing, joint venturing, triangle trade, and bartering.

Examples of penetration pricing include reports of a Japanese trading company selling at low prices for three years in Europe in order to establish an air conditioner market. Another example is that until 1967 it appears that the Japanese ship building industry used marginal pricing for export; since 1967, with half the annual tonnage in the world, pricing policies have been directed to recouping earnings. A final example is in the introduction of Toyota to the Philippines under initial terms to fleet owners of no down payments and a six month moratorium on payments; after an initial two years of operation, Toyota now has 25 per cent of all auto sales in the Philippines. In all these instances the Japanese stress that such export pricing policies should be determined in the perspective of total production and that income from developed markets can legitimately be used to support development costs in other markets. The significance of these tactics gains emphasis when considered in relation to the major complaint from Canadian trading houses that Canadian export pricing is unrealistic.

The existence of Japanese trading corporations also permits more effective joint venturing both for off-shore manufacture and resource development. For example, Mitsui by 1970 had invested in 95 distinct foreign ventures mostly directed to taking advantage of cheaper foreign labour, to semi-process imports and to provide markets for machinery and parts. The most important joint-venturing area is however of course in overseas resource development, the most familiar examples being loan financing of Canadian copper and coal developments, the former by six Japanese mining companies and three trading corporations and the latter by two trading corporations. Other major examples include the Mount Newman iron ore project in Australia in which 10% of the equity financing was provided by two trading corporations, uranium development in Niger, lead in Peru, iron ore in Chile, etc.

Another instance where Japanese trading corporations have significant marketing advantages is in the use of their foreign operations to identify Japanese export opportunities resulting from sales between third countries. One example of this is in a relationship through which Marubeni handles U.S. sales of a number of Philippine sugar mills and through these contacts is able to identify, for Japanese procurement, the machinery and parts required in the milling operations.

A particularly significant advantage which accrues to Japan through the existance of their trading corporations is in bartering. One example of this is in the construction by Sumitomo, using Japanese equipment and services, of a $30,000,000 Indonesian refinery. This was financed by the Japanese government and Japanese commercial banks, with repayment over an extended contract period in refined petroleum at current prices.

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Benefits accrue to Sumitomo through this transaction both in commissions on machinery and service exports and in commissions on oil imports. Substantially the same arrangements have been concluded in Singapore (again through Sumitomo) with the construction of a $50,000,000 refinery for Singapore Petroleum; repayment is scheduled through the provision of 1½ million tons of naphtha and low sulphur petroleum a year for five years from the date of construction.

UNITED KINGDOM

The British organizations most similar to Japanese trading corporations are the old colonial trading companies (East India Company, Hudson's Bay Company, Levant Company, Russia Company, etc.) of which the major survivor is the United Africa Company. The latter, particularly with its relationship to the Unilever Group, and such other British-connected organizations as Jardine Matheson represent the present existing trading agencies most comparable to the Japanese. The study has however not devoted any attention to these agencies because the circumstances of their creation in colonial trade and the present operation particularly of United Africa as an outgrowth of colonial trade are obviously different to anything which can be developed in Canada. Therefore attention has been directed primarily to the smaller British houses, specifically British export commission agents and British export merchants.

The major use made of British export houses was before 1914 when such agencies handled by far the greatest proportion of British export trade. As late as 1951 British trading houses still handled some 35% of British export trade. While the volume of turnover has increased, the proportion of British export trade now handled by trading houses has been reduced to a level of 20% of total export trade. Statistics on the structure of clientele and destination of trade handled by export houses are not available but it has been inferred that the change results from an increasing amount of trade of larger exporters being handled independently, relying upon trading houses primarily for assistance in abnormal marketing circumstances or where they offer a financial or marketing service that is not otherwise available or would be too costly to develop in-house. Trading houses are however still relied upon for general trade by small to medium-size exporters. Examples of specialized facilities are in extra-bank financing and particular export market expertise, the latter being most evident from the number and size of specialist companies focussed on COMECON trade. This is in fact held as a particular strength of the British export house structure: that the variety of houses in existence provide a range of expertise for nearly every trading eventuality. The result is however that British export merchants handle 25 per cent of British export house turnover with a downward trend, buying agents and confirming houses handle some 55 per cent with an upward trend, and the remainder are fairly stable at 20 per cent of total trade.

There are presently some 800 British export houses providing services as export merchants, commission agents, buying agents, confirming houses, export finance houses, etc. The total aggregate employment is approximately 10,000, or somewhat less than the total employment in Mitsui or Mitsubishi. Some relationships exist between export houses (through the British Export Houses Association) and the Department of Trade and Industry but no British government policies are specifically directed to promoting export house business. Before the Bland Committee (Committee on Invisible Exports) studies in 1967 and the subsequent 1969 study on the impact on invisibles of joining the European Common Market no aggregate statistics were even developed on export house operations. Within the last year however the British Export House Association has strengthened its position through a formal affiliation with the London Chamber of Commerce and has initiated discussions on a European association of export houses. The association will be based in London and will formalize the present "Stockholm Club" which is an informal grouping of trading house associations in the EEC, Sweden, Denmark, Norway, and Britain with Switzerland having observer status. The BEHA has proposed providing the base and initial financing for the new association. It is expected that the new association will have a stronger voice in the development of export policies.

Just as there is a significant proportion of Japanese trading corporation business in triangle trade it is estimated that some 25% of British export house turnover resulted from triangle trade. Total annual export house turnover in 1968 was $2.73 billion, of which $681 million was in triangle trade. Estimated annual contributions to British invisible earnings by export house operations in 1968 were $112 million. Earnings are obtained from the main services of work done in handling goods on documents and risk taken in granting credit. Earnings normally average 2½% of invoice value although they can vary between 1% and 10%.

Refinancing is normally done through London merchant or clearing banks (in the case of export finance houses, normally because of an association between the house and a bank) and therefore financing rates are usually higher than a bank advance. However, export houses still offer financing advantages in that cash is usually provided immediately, leaving the exporter's overdraft facilities free for manufacturing and home sales.

Of the largest houses, eight merchants, four purchasing agents or indent houses, nine confirming houses, three export management firms and eight export finance houses all have annual turnovers exceeding £3 million. Together these firms handle nearly 75% of total export house turnover. The largest British export house, both in terms of volume and geographical spread is Tozer Kemsley Millbourne. This company has until recently concentrated in Commonwealth countries and acts both as an export merchant and confirming house. Another house of interest is

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United City Merchants which with its associated group comprises some 30 companies engaged in a range of activities from exporting its own products to agency business and confirming. This group has concentrated on trade with the COMECON countries and China and has developed a particular expertise in barter trading and switch trading. The group's future intention is to apply this expertise to trading with developing countries. Another house of interest is Wogau Brameast which has concentrated on industrial goods marketing to the COMECON countries and which has similarly developed a special expertise in barter and switch trading. Although its emphasis will continue to be Eastern Europe (especially since the company has now become extensively involved in the export of U.S. goods to the area) it has currently entered into a phase of expanding into the Far East and Africa, using its existing barter expertise. Other major companies of interest are Dodwell and Co., Lewis and Peat, (both of whom won the 1971 Queen's Award for export performance) and Adam and Harvey.

A joint private/government enterprise still under investigation is the British Overseas Marketing Corporation which was established in 1967 to provide a supplement to the functions of existing private export houses. The Corporation was initially capitalized at £500,000, ten subscriber companies providing equity capital of £100,000 and the government providing loan capital of £400,000. Its functions are to provide a vehicle for making available to small to medium-size British companies the export expertise which they do not have available in house. In accord with this function, the official objective of the Corporation is to explore overseas markets for new opportunities for British exports and to ensure that adequate marketing efforts are made to exploit them, initially in particular product groups. To achieve this objective the Corporation recruited overseas sales personnel in 1968 and initially concentrated its activities in the European market, opening offices in Italy, France, West Germany and Sweden during its first 18 months of operation. The products initially promoted included agricultural machinery to France, hospital equipment to Italy, electronic and electrical equipment to Germany, and fashion textiles to Denmark and Sweden. After two years of operation the Corporation encountered some criticism since it had still to announce its first major deal. As a result of the government subsidy not being renewed in 1970 export operations throughout Europe were curtailed. The Corporation however has again expanded its operations into Europe, having opened a Technical Information Centre in Warsaw in 1971 focussed on expanding British technological exports to Poland.

One of the main reasons which has been given for the Corporation's marketing difficulties is that smaller firms that form its clientele very often not only have insufficient cash for foreign marketing ventures but also do not have production facilities to meet sizable foreign orders. However the fact that the Corporation is still being supported by its private backers, which include some of the major British trading firms, indicates that there is still private acceptance for the function that it is designed to perform. Shareholder companies include British Metal Corporation, C. Tennant & Sons, Harrisons & Crosfield, Inchcape & Co., Mitchell Cotts Group, Tozer Kemsley & Milbourne, James Finlay & Co., Cory Brothers & Co. and United Dominions Trust. The Corporation's marketing services in Poland are presently used by some twenty British companies including ICI Plastics, the Pye Group, Ferranti Instruments and Racal Electronics Group; it is anticipated that these will produce annual turnover of some £ 5 million within two years, producing a 10% increase in British exports to Poland.

Another British organization which was developed to achieve essentially the same objective is Export Joint Ventures Limited (Export Marketing Partnerships). This agency was initiated in 1965 by the British Institute of Marketing as a result of a BIM survey which indicated that some 600 companies contributed two-thirds of all British exports whereas 40,000 additional firms produced exportable product but were either not exporting or were marginal exporters; the study suggested that this situation derived from two problems, lack of financing and lack of knowledge. Export Joint Ventures Limited was developed in response to the latter problem. Its function was defined as providing "for manufacturers and exporters alike a considerable and impartial collective experience sufficient to bring about an export marketing partnership between a manufacturing expertise and an export expertise", the latter involving either a trading house or exporting manufacturers. It was initially developed as a non-profit organization and provided its services at minimal cost, with an annual government subsidy of £20,000. With the termination of this subsidy in 1970 however a new service charge policy was introduced whereby a small charge appropriate to size of turnover is made to enable EMP to recover costs once a partnership begins trading; this now is at the level of a fee £50 from each party to the partnership established and a percentage of export turnover ranging between ½% to 2½% depending on commodity and volume. EMP itself acts as a signatory to a partnership agreement and provides services through scrutinizing monthly accounts and acting as arbitrator between parties where disputes occur. An interesting part of the package offered is in pricing advice, in calculating export prices on the basis of additional direct costs (raw material, parts, labour needs for the order, direct production costs, etc.) but not including plant and equipment costs where orders are filled through unused capacity. The company now operates on a fully commercial basis, having severed its connection with the British Institute of Marketing, and appears to be quite successful in its operations: during its first year some 45 manufacturing firms were joined with already successful exporting companies in acceptable co-operative arrangements whereas some 30 partnerships have already been effected during the first three months of 1972.

EUROPE

Although Dutch and German trading houses occupy positions of some significance in the export trade of their respective countries (one estimate suggests that 30 per cent of German exports are handled by German export merchants) the study has emphasized agencies resulting from export groupings in Europe rather than independent export houses because of the availability of some information on such agencies and because they demonstrate some interesting forms of export co-ordination. Outlined following are details of such agencies in France, Belgium, Switzerland, the Netherlands, Austria, Norway, Denmark and Italy. Further detail on their operational procedures has been requested.

As with British and American analyses, studies by the French Centre National du Commerce Exterieur have indicated that a small proportion of French companies are responsible for the larger proportion of French export trade (4,500 companies being responsible for 72% of exports) and the major part of French export expansion will have to be developed from medium-size companies. The requirement for export middlemen agencies implied by these findings has however resulted in a different approach than that developed in British trade. Whereas independent trading houses occupy and have occupied positions of some significance in Japanese, German and British export trade such agencies are used in less than 10 per cent of French export trade. The functions normally performed by export houses in Japan, Britain, and Germany are in France performed for the

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most part by export groups. These consortia are used in nearly every French industrial sector with presently somewhat more than 100 major consortia in industrial sectors ranging from machine tools and agricultural equipment to lace and chocolates. The functions performed by these organizations range from joint marketing in a particular market area to general export marketing and rationalized production and purchasing. Advice has been requested on French government programs directed to supporting export consortia.

While export consortia are not quite as significantly developed as export marketing media in other European countries as they are in France, there are some interesting instances of their use.

One such instance is the group of export consortia associated with the Federation of Belgium Metal Working Industries (Fabrimetal). Among these are Symatex which is a limited company with the function of promoting development in package orders among thirteen Belgian companies manufacturing machines for the textile industry. Others are Sycomom which performs the same functions with machine tools and Sobeled which has as its purpose the export promotion of complete plants, mostly to Eastern Europe and the developing countries. Similar such groups have been developed by other major Belgian trade associations such as the Federation of Chemical Industries, the Federation of Food Industries, the Federation of Textile Industries, etc.

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It appears that this pattern is repeated throughout Belgian industry, that the function of providing export services to small to medium-size companies is vestedin trade associations and that, where export groups are developed, they are developed at the initiative of the relevant trade association.

Another instance, in Switzerland, is Biscoswiss S.A. which is a limited company acting as exclusive export agent in European markets for twenty-two Swiss biscuit and sugar confectionery manufacturers. All products are marketed under the name of Biscoswiss and the company controls quality, packing and labelling. The company has also been involved in the arrangement of licensing agreements and in the purchase and construction of foreign production facilities, the latter presently involving subsidiaries in France and Germany. Present capitalization is $50,000 and operating costs are covered by export sales commissions charged to participating companies. The initiative for development of the company came from the Swiss biscuit and sugar confectionery trade association.

A Dutch example is the Central Organ for Arts and Crafts Makers which acts as an export agent for some 500 Dutch industrial art firms. Client companies have an option to use the services of the group or not, subject to the proviso that they cannot engage in independent marketing in a market where a group agent has been appointed, but in fact the group handles virtually all exports, client companies usually being too small to develop independent export capability. Products are exported under group name and export promotion is centralized in the group. The group is funded by annual government grants.

An Austrian example, Gablonzer Genossenschaft, involves both common marketing and procurement. This consortium acts as an export merchant, buying the products of 236 glass jewelry firms and exporting under its own name. It additionally provides a joint purchasing facility in the purchase of raw materials, tools and machinery, etc. It engages in export promotion at a charge of some 3% of sales and was initially financed through a commission of 5% of sales; its present financing comes from profits, loans, and fixed monthly contributions from client companies. Other Austrian groups include Top-Team which is a voluntary association of ski boot, ski equipment, and winter clothing manufacturers for the purpose of common advertising only; Export Ring, a co-operative of small manufacturing companies primarily from province of Styria acting as an export agent for its members (recently opening a showroom in Toronto); Oehag and Oemolk which are associations for exporting milk and milk products, one to the Common Market area and the other world wide; and the Association of Vorarlberg Embroiderers which has been set up on the same basis as Export - Ring. No particular

Austrian government assistance is provided to such consortia except that they are eligible for an export traders tax refund which can vary between .82% and 8½% based on the commodity involved.

With the exception of Salesco A/S which is a consortium of Danish furniture manufacturers using common design there are no present Danish consortia of any significance. Of interest however is the Danish government Trade Fund from which 50% subsidies are available to export groups to cover the costs of export managers and consultants salaries, major foreign promotions, film productions, distribution, advertising abroad, etc. as well as the normal expenses involved in foreign travel and catalogue development and printing.

A Norwegian example is Modern Norway A/S which was established in 1967 as an exlusive export agent (for areas outside Scandinavia) for thirteen manufacturers of home furnishings. The company is entirely independent with no government support or participation nor are clientele manufacturers permitted to hold shares in the company. Client firms each sign contracts for varying numbers of years designating Modern Norway as their sole export management agency. The contracts contain termination clauses in case of abuse on either side. On signing the contract each client firm joining the organization pays Modern Norway a lump sum to cover expenses involved in introducing its products into the export product range of the company and Modern Norway in turn contracts with each firm to take over export management inside and outside the factory, including advice on production volume requirements, export promotion, travel, exhibiting, selling, catalogues and posters, appointment of foreign retailers and distributors, combination of shipment, etc. The company also has its own design consultants who work together with the various client firms advising their design and production divisions and feeding back foreign information on best-selling designs and projected future design requirements in individual markets. Group members may not copy each others designs but may be advised of the desirability of similarity in certain markets. Forms of settlement vary with contract terms established by each member. The most common form of settlement is "no sale, no pay" with each member charged a flat percentage rate on sales made for him. Individual firms sales and settlements are not disclosed to other members. The company's present organization requires 65% of its resources to be devoted to export management for client firms and 35% to export sales promotions; it is anticipated that these figures can be reversed in the near future. The company is now selling to twenty five countries.

Two more familiar examples of joint marketing, this time in the particular field of capital goods and capital projects, are in the Italian organizations, Gruppo Industrie Elettromeccaniche Per Impianti All'estero and Generale Impianti.

The former is a joint government/private company in which two state-owned companies are associated with seven private companies. The companies involved include virtually all major Italian companies which produce equipment for thermal and hydroelectric power plants - Ansaldo Meccanico-Nucleare, Asgen, Ercole Marelli, Franco Tosi, Officine Elettromeccaniche Galileo, Battaglia Terme, Fabbriche Riunite Magrini, Riva Calzoni and Sicom. The function of the group is to tender to prospective customers, to draw up construction plans, to coordinate member company activity and to exercise financial and technological control over the execution of a project on major thermal and hydroelectric power projects outside Italy. The close collaboration also permits rationalization between participating companies of production and design of machinery. The group is financed so that it has no profits with expenses fully covered by members and surplus funds returned to member companies. General costs are assigned on an equal basis to member companies while companies contribute to expenses incurred in specific projects in relation to their participation in the project. In cases where two or more member companies are able to supply equipment for a particular project an internal selection is made based on competitiveness before a group bid is submitted. All credits are insured with the Italian government and costs are apportioned in relation to direct project participation; if one firm is responsible for the group being unable to fulfil a contract this firm alone bears the cost of subsequent penalties. While the

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group has general marketing responsibility in the product sector on a world-wide basis, specialization has been in the developing countries and particularly in Latin America. The success of the approach is indicated by the company having obtained 37% of all contracts it bid on in its first 13 years of activity, for a total of $400,000,000 in sales.

In the second company, Generale Impianti, the consortium acts only as a co-ordinator. All participating companies in the consortium are not necessarily involved in each contract. After a bid by the consortium is accepted, supplies may be drawn from members and non-members alike. Prior to the consortium making a tender for a contract, the member companies sign an accord outlining the terms under which the bid shall be made and which companies shall be involved. If the bid is accepted, the contract is managed by the consortium on behalf of the firms that participate. General operating expenses are borne by member companies and are reimbursable from the profits of the consortium. The consortium charges a flat percentage rate on each contract and operating expenses incurred in the management of each contract are charged to individual participating companies. This consortium consists of Instituto Mobiliare Italiano, Fiat, Finmeccanica, Montecatini-Edison, Pirelli, Innocenti, Italceminti, and La Centrale.

BARTER & SWITCH TRADING

Because of the importance of bartering and switch transactions in trade with Eastern Europe and various developing countries some attention was directed to the bartering facilities which exist in other countries. As expected, the requirement for compensation trade with COMECON countries has created a number of companies with particular expertise in bartering and switch trading, especially in Austria, Germany, Switzerland, France and the United Kingdom. Examples of these include Golodetz Sugar Brokers and Biddle Sawyer in London, BAFAG in Munich, Werth & Co., in Cologne, Bankhaus in Hamburg, Waltrade and COMEX in Dusseldorf, Bank Cantrade and Andre et Cie. in Lausanne, and such houses as Allgemeine Warentreuhand, Bankhaus Schoeller, Winter & Co., and Internationale Handels-und Treuhand in Vienna. While the highest proportion of the business of these companies is still in COMECON trade increasing proportions are involving trade with developing countries, particularly in switch deals. In light of the compensation deals between the Soviet Union and various western European countries for pipeline construction against future natural gas deliveries, it is estimated that pure barter trade has reached levels of $5 billion annuallly, or nearly 2% of total world trade. Major European houses such as Allgemeine Warentreuhand and Winter & Co. have annual barter turnovers of respectively $100 million and $80 million, on which they expect to clear revenues of between $400,000 and $500, 000 each. More information has been requested on the operations of these houses.

Three interesting responses to barter requirements have come to light, in supplement of the services provided by professional barter houses. The first is that a number of companies in western Europe that have substantial business with COMECON countries and are substantially involved in compensation trade have set up special departments or subsidiaries to handle the resale of barter products. Examples are Fiat, Renault, SKF and the large Swiss and German chemical companies. Another example is in a German textile company which sells some DM 18 million of dresses into the Soviet Union and in turn sells through a subsidiary such barter commodities as rifles, pianos, cement and marble. The second is a barter register which is now being compiled by the London Chamber of Commerce, in response to requests from Chamber members. When complete this register will list several hundred existing or potential importers, their product requirements, their normal sources of supply, and their supply arrangements. It is intended to provide exporters with a handy reference to potential buyers for goods that they might be offered in exchange for their own products. It is above all an information and intelligence service for British firms involved in barter trade with other countries. The third instance is EVIDENZBURO which is an Austrian association for firms involved in east-west trade, founded in 1968 by the Austrian Ministry for Trade, Commerce and Industry, the Federal Chamber and Association of Austrian Industrialists, and various specialist houses in east-west trade. The Bureau is an independent self-sufficient association of firms on the basis of voluntary membership and is supported by fees from members which are determined annually. It is a non-profit organization. The Bureau's purpose is to provide a facility through which exporters, particularly to eastern Europe, can find outlets for the product they are required to take in compensation for export orders. Because the membership of the Bureau includes a number of import or transit trade firms a connection can be established between an exporter and a potential importer of compensatory products through the Bureau. The exporter can, before contract conclusion, be advised through the Bureau which counter products he can commit himself to take, ie. which outside trade agency he can accept as a partner for delivery of compensatory products. In this function the Bureau performs essentially a liaison role between exporter and importer and does not itself engage in any acquisition.

Another barter activity of some interest is that of which is performed under the U.S. Commodity Credit Corporation barter program, administered by the Office of Barter and Stockpiling of the U.S. Department of Agriculture. This program had its birth in barter exchanges of agricultural commodities for strategic materials. It presently involves making available for local procurements by U.S. government agencies operating abroad (particularly the Department of Defence and the Agency for International Development) those credits which are generated in non-convertible funds through sales of U.S. agricultural commodities in the countries of agency operation.

CANADA

The Canadian portion of the study has been directed to determining what proportion of Canadian export trade is handled by export middlemen and how their services are used by Canadian exporters. It has been pursued through analysis of trade statistics, a review of export middlemen files in the Department's Exporters Directory, and direct discussions with selected middlemen and client companies.

It is estimated as a result of these surveys that export middlemen handle nearly 20% of Canadian export trade. By far the greatest proportion of this has been in trade in primary products with by far the largest traders being Cargill, Dreyfus, Continental, Bunge and Agro, the largest commission agents in the Canadian grain trade.

While there would appear to be several hundred companies that can be characterized as export middlemen in Canada the major business is quite concentrated, with only 19 companies having sales in excess of $5 million. The majority of these are again for the most part involved in primary products trade. They are listed as follows:

Agro Company of Canada
East Asiatic Co. (Canada) Ltd. (Danish)

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Mitsui & Co. Ltd., (Japanese)

Seaboard Lumber Sales Co. Ltd.,

Balfour Guthrie (Canada) Ltd., (U.K.)

Eacom Timber Sales Ltd., (Danish)

Cansulex Ltd.,

Terfloth Kennedy & Co. Ltd.,

Price and Pierce (Canada) Ltd., (U.K.)

G. Solway & Sons Ltd.,

Ancore International Ltd.,

Brimstone Export Ltd.,

B.C. Tree Fruits Ltd.,

Calkins & Burke Ltd.,

Michael Doyle & Associates Ltd.,

Mitsubishi Canada Ltd., (Japanese)

Mullerin Meats Ltd.,

Shafer - Haggart Ltd.,

Toyomenka Inc. (Japanese)

It was generally accepted among all those surveyed that a need existed for improving the export performance of small to medium-size Canadian companies and that this could be best accomplished by the provision of joint marketing facilities, whether through a trading house or export group. However, discussions with Canadian export middlemen revealed five basic problems which inhibit the growth of their business:

1. <u>Export prices by Canadian manufacturers are too often not competitive.</u> Pricing is seldom developed on the basis of covering variable costs plus a reasonable profit margin and export orders are seldom regarded as incremental business that would not otherwise be available to fill below-capacity plants. It was felt that more aggressive pricing on the part of Canadian manufacturers could improve both direct exports and exports through middlemen.

2. <u>Attitude by Canadian manufacturers that a middleman is an unnecessary layer in the distribution channel.</u> There is a general failure to recognize that many world markets require special skills and knowledge to penetrate and to minimize payment risks. This can be particularly the case with smaller companies that have a competitive product but may be too thin managerially to handle their own export business. Despite this many prefer simply to grant commission on orders sent in rather than make advance financial contributions to a middleman to develop and handle offshore business.

3. <u>Attitude by Trade Commissioner posts that orders should always be referred directly to the manufacturer, bypassing the middleman.</u> This again fails to recognize the market expertise that a middleman can bring to bear in particular

markets. There was however another resulting problem identified in that without being able to combine orders there is no opportunity for a middleman to consolidate shipments and thus negotiate better routings and better freight charges.

4. <u>Inadequate sourcing assistance from the federal government.</u> It was suggested that Industry, Trade and Commerce line branches could more actively assist middlemen in their attempt to source in Canada for given export orders.

5. <u>Ownership Structure of Canadian industry</u>. It was suggested that foreign ownership of Canadian manufacturing companies represents a serious problem for middlemen development where the subsidiary has no marketing autonomy and is only willing to operate through a middlemen if the latter takes title to the goods.

Conversally there are a number of significant advantages suggested in the survey which can be offered to clientele companies through joint marketing, whether through independent export middlemen or various forms of export association. These of course vary between joint marketing from small to medium-size manufacturers and capital projects marketing as well as between various products and services handled. The suggested advantages are as follows:

1. Reduction in transportation costs - the control of large volume sales permitting negotiation of reduced freight costs and of improved routing.

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2. Reduction in handling costs - the resources derived from large volume marketing permitting the negotiation of, use of, or construction of appropriate handling facilities.
3. Market control - forward market planning and control to ensure orderly marketing of product.
4. Reduction in selling costs - reduction in unit sales costs through large sales volume.
5. Continuity of supply - through access to a number of suppliers.
6. Price stability - centralized selling and production policies to prevent wide price fluctuations.
7. Quality control - centralized inspection to maintain quality control and quality assurance to buyers.
8. Market research and development - greater marketing resources to reduce per-unit R. & D. costs permitting more effort to be directed to market research and development.
9. Rationalized production - the ability to engage in production specialization on the basis of forward market planning and expected market allocations.
10. Reduced servicing costs - the ability through joint sales and servicing to maintain after-sales service operations in areas which would be uneconomical for individual companies.
11. Selecting-out - the ability to prevent competition among domestic suppliers for foreign business by designating who should get the business.

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12. Innovative marketing - the marketing expertise developed and greater resources available permitting the effective use of marketing techniques such as bartering, leasing etc.

13. Improved marketing management - the ability to train personnel specialists in particular areas or particular phases of the joint marketing operation.

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MAY 4, 1972.