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CENTRAL INTELLIGENCE AGENCY

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GDR PROCEDURE FOR HANDLING BARTER TRANSACTIONS

[Comment: This report [redacted] 50X1-HUM [redacted] deals with GDR procedures for handling barter transactions. The report identifies types of barter transactions, the duties and responsibilities of various GDR foreign-trade agencies in negotiating and carrying out barter transactions, and various arrangements among GDR foreign-trade agencies intended to facilitate the movement of commodities under barter contracts. The date of information is prior to July 1954.

[redacted] 50X1-HUM

The term "trading DIA," as used in this report, refers to all DIAs except the DIA for Barter Trade.]

General

Barter transactions are exchanges of commodities in which no payments are made, but deliveries and counterdeliveries are balanced with one another by the trade partners. Although in larger barter transactions clearing accounts may be established in banks of several countries, it is the decisive characteristic of this type of transaction that no transfer of currency takes place.

With the growth of barter trade after World War I, the barter trade firm appeared in the field of international trade as a broker who brought together importers and exporters and who arranged for the balancing of deliveries.

[redacted] 50X1-HUM

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The following types of barter contracts are used by the GDR:

1. Global agreements are concluded between a GDR foreign-trade agency and a foreign barter trade firm which either is authorized by the foreign state to sign the agreement or has a monopoly position. The global agreement is a contract under international civil law and provides for the exchange of listed commodities of equal total value. The foreign partner is not himself a dealer in the individual commodities exchanged under the agreement. Instead, every firm in the foreign partner's country has the right, subject to licensing regulations, to buy and sell goods under the provisions of this agreement.

2. Global barter contracts are signed between a GDR foreign-trade agency and a foreign partner who imports and exports some of the commodities listed in the contract on his own account, and who acts as a broker with respect to the other commodities. Goods to be imported under a global barter contract are fully specified as to commodity, prices, delivery dates, etc., while goods to be exported are specified only by commodity groups and quotas for commodity groups.

3. Skeleton barter contracts are signed between a GDR foreign-trade agency and a foreign partner who usually deals in the commodities listed in the contract on his own account. Generally, these are preliminary contracts, providing only for the purchase and sale of certain specified commodity groups in values indicated for each group. Actual imports and exports are agreed upon later in individual contracts containing specific provisions.

4. Individual barter contracts are signed by a GDR foreign-trade agency with a foreign trade enterprise doing business on its own account, or with a foreign commission merchant. In such a contract, import and export commodities are fully specified. [Individual barter contracts may be concluded under the provisions of existing global agreements, global barter contracts, and skeleton barter contracts.]

5. House barter contracts are signed between a DIA and a single foreign firm, and provide for the exchange of goods falling wholly within the area of responsibility of the contracting DIA. Individual DIAs may sign and carry out such contracts with the consent of the DIA for Barter Trade.

6. A barter share is a trading DIA's share in the total goods to be traded under a barter contract which provides for the exchange of goods falling within the areas of responsibility of several trading DIAs.

Processing of Barter Transactions

When a trading DIA requests arrangement of a barter exchange, the DIA for Barter Trade has the following duties:

1. To negotiate and conclude global agreements, global barter contracts, skeleton barter contracts, and individual barter contracts.

2. To authorize house barter contracts.

3. To submit the contracts to the Main Department for Commercial Policies in the Ministry of Foreign and Intra-German Trade for approval.

4. To register and control the execution of all barter contracts (except house barter contracts) concluded by GDR trade enterprises in foreign and intra-German trade.

In arranging a barter exchange, the participating trading DIAs have the following duties:

1. They must investigate the markets and find parties interested in the goods they wish to sell, and they must conduct negotiations with respect to their barter shares and inform the DIA for Barter Trade of the results. The trading DIAs must inform the DIA for Barter Trade, not more than one month after they have been informed of their foreign trade plan, what commodities they wish to exchange with individual countries under barter arrangements, so that the DIA for Barter Trade will be able to conclude the necessary barter agreements and contracts.

2. The DIAs must negotiate and conclude house barter contracts as well as individual export and import contracts called for by existing global agreements and barter contracts.

3. Each DIA is responsible for the shipment of the commodities within its area of competence which are exchanged under the provisions of barter contracts in which it has a share.

In carrying out barter transactions, the DIA for Barter Trade has the following responsibilities:

1. When an export order is requested for an individual barter transaction, the DIA for Barter Trade must fix the date on which the export order must be returned to it and enforce observance of that date, and it must transmit at the same time the approved individual barter contract to the trading DIA concerned.

2. In negotiating barter agreements and contracts, the DIA for Barter Trade must check the credit of the foreign partner and must see to it that the foreign partner obtains authorization for the barter contract [presumably from competent authority in his country] at the proper time.

3. The DIA for Barter Trade must submit to the trading DIAs concerned a draft of any barter contract in which such DIAs will participate. After the draft is checked by the trading DIA, it is returned to the DIA for Barter Trade. Three days after receiving this draft, the DIA for Barter Trade must return the fully signed contract to the trading DIA.

4. The DIA for Barter Trade must control the execution of barter contracts. Two days after individual barter contracts have been signed, it must check whether the provisions of these contracts agree with the provisions originally agreed upon in the export orders for the goods now covered by these barter contracts. If the provisions of the individual barter contracts and the export orders are the same, the DIA for Barter Trade must confirm the individual barter contract as being a part of a global agreement, global barter contract, or skeleton barter contract. The DIA for Barter Trade must also transmit to the appropriate trading DIAs individual export and import licences issued by foreign countries under global agreements. It must further authorize the dispatch of exports not less than 20 days before they are scheduled to be dispatched from the production enterprise, provided counterdelivery has been received or a collateral letter of credit or a bank guarantee has been furnished. It must also decide whether to grant authorization for the opening of import letters of credit, and approve requests for such authority which are submitted by the DIAs to the Ministry of Foreign and Intra-German Trade.

In carrying out barter transactions, the exporting DIA has the following responsibilities:

1. It must assist in negotiating barter contracts. It must provide prospectus material of export commodities and submit offers when these are requested from abroad. It must make a monthly report, by the 15th of [illegible] month, on inventory available or becoming available for export. It must promote the sale abroad of commodities which it wishes to include in its barter share in any barter contract. It must complete and transmit to the DIA for Barter Trade [previously negotiated] export orders which are to be included in barter contracts under negotiation.

2. The exporting DIA must process the drafts of barter contracts forwarded to it and check whether the export commodities covered by such contracts can be made available for export.

3. The exporting DIA is also responsible for concluding on schedule individual contracts covering barter shares allocated to it under any global agreement, global barter contract, and skeleton barter contract. If there are any difficulties in making full use of such a barter share, the exporting DIA must so notify the Department for Contract Control of the DIA for Barter Trade before two thirds of the period allowed in the barter contracts for agreeing on specifications of goods to be traded has passed.

4. The exporting DIA must further see to it that individual contracts are properly drawn up, that their provisions agree with those of the barter contract under which the goods are to be traded, and that these individual contracts are properly submitted to the DIA for Barter Trade. The exporting DIA must provide in the export order that the production enterprise will notify the DIA for Barter Trade, 4 weeks in advance of the delivery date provided for in the export order, on which date the commodities will [illegible] be ready for shipment. If the export goods are not to be sent to the [illegible] party to the barter contract, but to another purchaser, the exporting DIA must obtain, preferably through the actual purchaser, a certificate [illegible] party to the barter contract permitting delivery of the goods to the third party.

5. The exporting DIA must procure all individual [import] licenses [from the recipient country when the goods to be exported under a barter contract are not covered by a single foreign import license]. It must also obtain all letters of credit, collateral letters of credit, bank guarantees, and other collateral required by barter contracts.

6. The exporting DIA must see to it that shipments of goods whose dispatch has been authorized are actually made. If such goods cannot be dispatched within the time limits set, the exporting DIA must so notify the DIA for Barter Trade, indicating a new shipping date, so that the DIA for Barter Trade can make other arrangements. The DIA must in general see to it that commodities are shipped on schedule, by sending authorization of shipment to the production enterprises and drawing up and sending out the export bill of lading at the proper time. The exporting DIA is responsible for checking the conditions of letters of credit, and for drawing on letters of credit, guarantees, and other collateral. Within 18 days after the dispatch of the commodities, the exporting DIA must settle with the Department of Contract Settlement of the DIA for Barter Trade on the basis of a bookkeeping voucher on a foreign-exchange invoice.

The importing DIA has the following responsibilities in carrying out barter transactions:

1. In connection with the negotiation of barter contracts, it must obtain and process on schedule offers of foreign goods. It must make an effort to find import goods which it will include in its barter shares; and it must make available to the DIA for Barter Trade all specifications of

commodities which it wishes to purchase abroad under barter contracts. These specifications must be made available within 3 days after they have been requested by the DIA for Barter Trade, assuming that binding negotiations have been made previously [presumably between the importing DIA and its foreign supplier]. Before submitting these specifications to the DIA for Barter Trade, the importing DIA must have obtained the required purchase permits from the competent GDR authority.

2. The importing DIA must process drafts of barter contracts forwarded to it [by the DIA for Barter Trade], and check whether the imports provided for in the contracts are actually available for purchase.

3. The importing DIA must conclude on schedule individual contracts under the provisions of global agreements and skeleton barter agreements, of which barter shares have been allocated to it by the DIA for Barter Trade. If there are any difficulties in making full use of the allocated barter share, the importing DIA must so notify the Department for Contract Settlement of the DIA for Barter Trade before two thirds of the period allowed in the barter contract for agreeing on specifications of goods to be traded has elapsed.

4. The importing DIA must properly negotiate and draw up individual contracts under the provisions of the barter contracts, and it must submit these individual contracts to the DIA for Barter Trade on schedule.

5. The importing DIA is also responsible for the procurement of all individual [export] licenses [from the country of origin, when the goods to be imported under a barter contract are not covered by a single foreign export license.] It must also obtain all letters of credit, collateral letters of credit, and bank guarantees required by barter contracts.

6. The importing DIA must facilitate the movement of commodities by making the import bill of lading available on schedule at the boundary or at the border control point. The importing DIA must notify the DIA for Barter Trade of the receipt of any imports within 5 days after their arrival in the GDR. The trade office of the DIA which is importing any commodities must notify its own Department for [Invoice] Settlement and Audit, which in turn sends an export release to the DIA for Barter Trade. In case of a house barter contract, the Department for [Invoice] Settlement and Audit sends the export release to the exporting trade office of the same DIA. The importing DIA must settle with the DIA for Barter Trade (on the basis of a bookkeeping voucher or a foreign-exchange invoice) within 10 days after the receipt of the imports or notify the DIA for Barter Trade why settlement cannot be made within this period.

When a trading DIA enters into a house barter contract, it must submit the contract to the Desk for Contract Registration of the DIA for Barter Trade for approval and registration. Cancellations and changes under such contracts must be reported to the DIA for Barter Trade in the form of a supplement. The trade office of the trading DIA which has the largest share in such a cancellation or change must prepare such a supplement.

Organization of the DIA for Barter Trade

Unlike the trading DIAs, the offices of the DIA for Barter Trade are organized on a country basis, as follows:

Office	Area of Responsibility	Chief	Telephone Extension
K 1	Sweden, Norway	Schober	218
K 2	Denmark, Great Britain, Ireland, Iceland	Kalbitz	280
K 3	Netherlands	Volk	367
K 4	France, Belgium	Stillmann	361
K 5	Switzerland, Italy, Austria	Quietzsch	278
K 6	Non-European Countries	Liebsch	288
K 7	West Germany	Schramm	362

Since the DIA for Barter Trade has the functions of a broker and coordinator, the provisions of the general contract system do not regulate the relations between the DIA for Barter Trade and the trading DIAs. Since 1953, the DIA for Barter Trade has issued [monthly?] circular letters containing information of use to other GDR agencies. The Work Control Department [presumably of each DIA] supplies pertinent information from these circular letters to the appropriate trade offices of its DIA.

The DIA for Barter Trade has agreed to hold monthly consultations with the directors and trade office chiefs of [each?] trading DIA. When the occasion warrants it, the DIA for Barter Trade will also invite a trade office chief in a trading DIA to participate in direct negotiation with a foreign customer.

Prices in Barter Transactions

There is no reason for demanding or accepting prices in barter transactions other than those which would be demanded or accepted in transactions in which payment is made by letter of credit. The price is dependent on the market and on the quantity of goods sold. The trade office chief is responsible for obtaining the highest possible price for exports and the lowest possible price for imports [in barter as well as in other types of transactions].

To achieve a uniform price policy [for all GDR foreign trade agencies], the competent trade office chief or director [of a trading DIA] may request an investigation of prices for all goods or for a single commodity to be traded in a barter transaction from the Department for Markets and Prices of his DIA, which then passes this request on to the Department for Markets and Prices of the Ministry of Foreign and Intra-German Trade. The prices are then checked by a commission consisting of representatives of the following:

Department for Markets and Prices, Ministry of Foreign and Intra-German Trade (chairman of the commission),

Main Department for Commercial Policies, Ministry of Foreign and Intra-German Trade

Competent import or export desk in the Ministry of Foreign and Intra-German Trade

German Institute for Market Research

DIA for Barter Trade

Competent trade office chief, trading DIA

Chief, Department for Markets and Prices, trading DIA

This commission meets weekly, but in urgent cases such an investigation can be carried out in 48 hours. [Presumably there is one commission for each DIA.]

It is the purpose of these measures to prevent GDR commodities from being offered at a lower price by foreign barter merchants than by the trading DIA [on a nonbarter basis]. It must be pointed out to barter merchants at the very beginning of trade negotiations that the GDR must enforce the contract provision imposing penalties on the barter merchants for offering goods below the agreed [sales] price.

Barter contracts can be negotiated and concluded most advantageously when the foreign representatives of the trading DIAs themselves arrange a number of suitable transactions to be included in a barter contract. Otherwise the trading DIA must guarantee to its representatives the special protection which it owes them when prices are cut by other dealers who receive the same goods under barter contracts [and when the representatives are excluded from the transaction].

Measures to Expedite Barter Trading

The DIA has issued the following regulations to expedite barter trading:

Each barter contract determines the maximum balance of exports [illegible] to imports delivered which may exist at any time for the duration of [illegible] tract, and it provides in detail for the arrangements under which goods [illegible] be exchanged, such as advance deliveries of imports, advance deliveries [illegible] exports, barter exchange with or without a balancing of accounts, swing [illegible] and exchange through trustees. The contracts may also provide that bank guar-antees or collateral letters of credit be made available. Such instrument[illegible] lessen the risk of barter transactions, and they further facilitate them because they usually make the delivery of exports independent of the delivery of imports.

It is the task of the DIA for Barter Trade to facilitate exports and imports to the largest possible extent. However, the DIA for Barter Trade may not go to the length of substituting the cash-against-documents method of payments when the opening of the letter of credit has been delayed. It must, on the contrary, strive to have a letter of credit opened on time in every case. The DIA for Barter Trade may turn to cash-against-documents payment in barter transactions which are supposed to be guaranteed by a letter of credit, only in well-founded exceptional cases, because, under the cash-against-documents procedure, the imports are delayed until the cash-collection order is executed.

Advance delivery of imports is usually provided for in barter contracts which do not provide for a final financial balancing of accounts. Under such an arrangement, the foreign barter partner is required to deliver his commodities first. He receives counterdelivery only after his commodities have arrived or have been transferred to the purchaser at a place provided for in the contract, or after documents have been received by the importing DIA. After the importing DIA has confirmed receipt of the imports to the DIA for Barter Trade, the latter authorizes the exporting DIA to dispatch the export counterdeliveries.

 50X1-HUM

However, authorization to dispatch the export counterdeliveries can be given to the exporting DIA [before receipt of the imports] when this DIA certifies to the DIA for Barter Trade that it assumes full responsibility for any risk involved pending receipt of the import goods. Any funds (in DM) withdrawn from the account of the importing DIA under such an arrangement will have to be repaid if the import commodities do not arrive.

The manner in which advance deliveries of exports provided for in barter contracts are handled depends on whether collateral has been furnished. If the contract does not provide for any bank guarantee or collateral letter of credit, the DIA for Barter Trade may authorize dispatch of the export commodities provided the exporting DIA assumes full responsibility for these exports and promises to return to the importing DIA any funds (in DM) which it has withdrawn in connection with the transaction if the imports do not arrive.

Under such an arrangement, the accounts of the importing and exporting DIAs are balanced as in barter transactions not calling for a final financial settlement. However, advance delivery of exports will not be authorized before an export letter of credit has been opened, if the barter contract provides for the mutual furnishing of letters of credit and the funds for the import letter of credit are to be drawn from the export letter of credit as export deliveries are made. Advance delivery of exports may also be authorized when an export order has been altered to a cash-against-documents basis. The corrected export order must bear the notation, in such a case, that the proceeds from the cash-collection order are to be credited to the barter trade account of the exporting DIA. In the latter two cases, the DM accounts of the importing and exporting DIAs are balanced through the German Bank of Issue.

When the barter contract provides for the establishment of a letter of credit by each party, with accounting to be handled in clearing foreign exchange through clearing accounts, authorization to dispatch export commodities will be given as soon as the letter of credit has been properly opened. If the barter contract provides for a swing balance, the authorization will be dependent on the extent to which the parties have availed themselves of the swing balance and on delivery arrangements already made between the parties but not yet carried out. If a letter of credit under this type of barter contract should be delayed, an export order may be altered to a cash-against-documents basis. In such a case, the cash collected by the German Bank of Issue must be credited to a special account of the exporting DIA. This alternate procedure may be limited, however, to a quantity of exports which will not exceed the swing balance.

A final form of barter exchange is that in which a balancing of deliveries is placed in the hands of a trustee. Such transactions are usually handled without a bank collateral as pure barter transactions. The DIA for Barter Trade authorizes dispatch of the export commodities when it has been informed that both the exports and the counterdeliveries from abroad are ready for shipment. Dispatch is then authorized with the proviso that they are to be shipped on request of the forwarding firm which has been appointed trustee. An undistrubed exchange of commodities, balanced in value, is possible under such an arrangement only if the parties to the contract ship the goods strictly in accordance with the arrangements made by the trustee. Every export order must accord with these arrangements, and no dispatch of commodities can be authorized except in accordance with these arrangements.

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All of the foregoing regulations of the DIA for Barter Trade provide that the exporting DIA may, in certain cases, apply for authorization to dispatch export commodities on its own responsibility, which in general facilitates the dispatch of exports.

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