Ministry of Education and Science of Ukraine
Sumy State University
Academic and Research Institute of Business, Economics and Management

Yarova I. Ye., Vorontsova A. S.

MANAGEMENT OF INERNATIONAL TRADE

Lecture notes

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MANAGEMENT OF INERNATIONAL TRADE

for students of specialty 292 “International Economic Relations”
full-time course of study

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Department of International Economic Relations of Academic and Research Institute of Business, Economics and Management

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P.

INTRODUCTION

The current stage of development of international economic relations is characterized by rapid growth of production and volume of international trade operations, due to the acceleration of scientific and technological progress. The consequence of this is the production consolidation and the deepening its specialization. The development of specialization and cooperation of, scientific development will require the expansion of markets, as well as the improvement of all forms of international cooperation, including international trade operations, the procedures of which must meet modern requirements and trends.

The course *"Management of International Trade"* highlights a consistent chain of problems that should be solved by economic entities entering foreign markets. The issues of search and analysis of potential markets abroad, foreign partners and negotiations with them are considered. The process of preparation, conducting and execution of an international trade operation, international sales contract and agreement concluding, as well as features of transportation and settlements in international trade, opportunities for lending and financing of international trade operations are studied.

In addition, special attention is paid to the analysis of organizational forms of international trade, including the advantages and disadvantages of entering the foreign market through trade intermediaries, as well as the development of traditional forms of trade in raw materials, including commodity transactions, stock trading, wholesale and international auctions. The current trends in the organization of trade in finished products, implementation of international compensation agreements are analyzed. Modern forms of trade technologies, important areas for international cooperation between corporations and the basic procedures governing international trade operations are also considered.

Tasks of the discipline: to investigate the process of preparation, conduct and execution of an international trade operation; conclusion and signing an international sales contract; search and analysis of potential markets abroad, foreign partners and negotiations with them, as well as the peculiarities of transportation and settlements in international trade; the possibility for lending and financing international trade transactions.

After mastering the material of the discipline the student must:

KNOW: the essence of international competition; forms and methods of competition internationalization; basic methods of negotiations and their organizational forms with foreign partners; the process of preparation and conclusion of a foreign trade agreement; organizational mechanism for the implementation of international trade contracts; the process of cargo transportation in international activities; modern forms of lending for international trade; mechanism for implementing international compensation agreements.

BE ABLE TO: clearly and logically reveal the mechanism of international trade transactions; analyze the situation of the country on the international market, to determine the specialization of the country, its trade direction and main partners; analyze and reveal in details and step by step the mechanism of international contracts implementation from the search and analysis of foreign partners, negotiations, organizational agreement mechanism, choice of methods for calculation and financing operations to the distribution network organization.

Topic 1. International competition and its impact on the international trade development

1.1 The essence of international competition.
1.2 Forms and methods of competition internationalization.
1.3 Globalization as the main feature of modern competition.
1.4 Search and selection of a foreign partner

1.1 The essence of international competition

Competition can be defined as a situation in which two or more parties come into conflict because their goals are fully or partially mutually exclusive. There are two forms of competition: competition between entities whose goals are similar but mutually exclusive (ie when both parties try to sell or buy the same product); competition between entities whose goals are not similar, but also mutually exclusive (when one party tries to buy the product as cheaply as possible and the other - to sell as expensive as possible) [1-3].

Competition should not be taken as a minor nuance; it is the engine of economic growth for both the country as a whole and for the individual firm. At the microlevel, competition is a force that encourages companies to look for new ways to reduce costs for the same production volumes or to increase output at the same costs. At the macrolevel, international competition ensures the development of only those companies that have best adapted to the conditions of constant struggle and improved use of resources. For an individual company, international competition and competitiveness are necessary for survival and achievement of its goals.

1.2 Forms and methods of competition internationalization

Recently, the concept of “development stages” for internationalization has been developed, ie a gradual transition from a simpler form of international cooperation to a deeper one: licensing, export through an agent and intermediary, export through own sales network, place of assembly, local production. This concept can be complemented by the study of "geographical directions of development."

The main forms of competition internationalization are the development of international sales activities and the international production location. Companies, working in the domestic market, later on begin to sell their products in other countries, following a certain geographical direction of development. Analyzing the geographical directions of internationalization, it is necessary to distinguish between the internationalization of production and sales. This approach makes it possible to develop a portfolio of production locations that differs from the portfolio of sales markets (portfolio of markets).

Consider the portfolio of markets. A distinction is made between the scale of the portfolio, ie the number of markets, and the structure of the portfolio, ie the types of markets that the company serves. There are two main strategies for portfolio size: concentration and dispersion. While to determine the structure of the portfolio there are many opportunities to combine markets. There are three main categories of the portfolio of markets [4-6]:

- opportunistic;
- evolutionary;
- competitive.

1.3 Globalization as the main feature of modern competition.

Naturally, the causes of globalization exist at both the macro - and microlevels. In some cases, the causes for globalization are fundamental changes, such as changes in technology or consumer demands.

In other cases, microeconomic actors influence changes in market structure.

The *reasons* for the competition globalization are as follows:

• technological intensification;
• available resources;
• the ability to implement a strategy to reduce production costs;
• growing importance of foreign markets for domestic producers;
• global competitors' intensification;
• intensification of the investment process;
• the international financial market liberalization;
• global production concentration and specialization.

Globalization is not a static process, but a dynamic one. The globalization development can be explained by the following main factors:

• international competitors' strategic intentions (the process largely depends on the participants' expectations). Each long-term goal will affect current actions and the nature of competition. Specific plans are subordinated to the strategic goal of the company. For example, Honda started talking about globalization when it had only 50 employees. Often one or more aggressive and ambitious companies create a global industry. The higher the level of expectations of such competitors, the more intense for the international competition;

• the competitors' ability to coordinate actions on a global scale, ie the success of the company will depend on the coordination effectiveness on a global scale. One of the main ones is the cross-subsidization strategy, according to which revenues from a division in one country will be used to succeed in other countries;

• the competitors' ability to change the global competition conditions, ie to establish their own rules of the game, changing the industrial characteristics. This factor is important for business, as supporting initiatives and determining the basis for competition is key element of success;

• the competitors' ability to maintain global competitive advantage, which depends on the type of competitive advantage and how the company tries to maintain competitive advantage over time [6,7,8].

1.4 Search and selection of a foreign partner

The choice of a foreign partner will be primarily influenced by the nature and subject of the foreign trade agreement: export, import, compensation, production cooperation, etc. Choosing a partner, it is necessary to make sure of its reliability and honesty in conducting business. Characteristics of various aspects of the firms' activities - potential partners can be grouped as follows:

• financial policy (available financial resources, creditworthiness, sales, profits and losses, profitability rate, etc.);

• technological capabilities (technical charecteristics of products, technological base, production capacity, production volume, equipment, number of employees);

• scientific, technical potential (R&D organization and cost, innovative technologies);

• organizational management structure.

An important factor in choosing a company is its business image, which is characterized by good faith in the agreements implementation, a tendency to compromise and so on. It is advisable to put the collected information about potential partners into the database and constantly update it [9,10,12].

Questions for self-control

1. What is international competition?
2. The main trends in international trade competition.
3. What are the main drivers for competition internationalization?
4. Name the main forms of economic activity internationalization.
5. Opportunities to manage products markets.
6.The main sources of information for finding foreign partners, their advantages and disadvantages.

Topic 2. Negotiation strategy with foreign partners

2.1 The main methods of negotiations and their organizational forms
2.2 The importance of non-verbal negotiation methods.

2.1 The main methods of negotiations and their organizational forms

Negotiations can be conducted in several ways: by mail, telephone and e-mail, as well as personally. The decision on how to negotiate depends on many factors, including the time available to the parties, the number of issues to be resolved, and so on.

Business mail takes the most time, so it is the longest method of communication. Telephone conversations take less time, but sometimes have a high cost, and it is not possible to resolve previously unresolved issues over the phone. In addition, you must send the partner a written confirmation of the agreement reached by phone. The highest form of negotiation is personal negotiation of partners. Based on historical experience in the development of international relations, it is possible to develop the most important rules for communication between international business representatives. Despite some recent easing of protocol rules for business communication, this does not exempt from the need to comply with them.

Business meetings can be divided into two categorie as follows:

• business conversations involving the views exchange;

• business negotiations aimed at solving the problem.

For the successful implementation of a business meeting it is necessary to determine:

• personal composition of the delegation (its level and degree of authority in the process of agreeing the contract terms);

• the venue.

Business negotiations can be divided into three main stages: preparatory, negotiation, signing the agreement. To assess the possible course of negotiations at the preparation stage it is necessary:

• to collect the detailed information about the partner company, its business environment, personal information about the members of the contractor's delegation;

• to plan the negotiations (place, time, sequence of issues to be discussed, the delegation composition of the of the host party);

• to consider the organization of the reception of the partner;

• to determine the negotiations tactics (try to keep the initiative);

• to develop an unobtrusive but effective communicating form for positive personal information to the partner;

• to analyze the weak and strong positions of the counterparty.

The program for the stay of the other party's delegation and negotiations should include the following issues [10,14]:

• organization of the meeting and departure for the delegation;
• hotel accommodation;
• business program (negotiations, meetings, conversations);
• protocol events (receptions, breakfasts, lunches, etc.);
• cultural program (theater, excursions, etc.).

Depending on the position of the negotiators, partnership and confrontational approaches to negotiations are possible. In both cases, they are mostly reduced to how clearly and precisely the position of the party is determined, what aspects are emphasized.

The following *types of behavior of the parties are possible during negotiations*:

• opening a position - the party clearly formulates its tasks and interests, gives the partner clear information;
• closing the position - the party hides its intentions, provides distorted and sometimes false information;
• emphasis on common positions;
• emphasis on differences.

Negotiation tactics:

• “withdrawal”, when it comes to a decision, and one of the parties has not been able to fully analyze the position and feels weak, it offers to move to the discussion of another position;
• “expectations”, when negotiations are conducted in such a way as to find out the partner's opinion without revealing their position;
• “overestimation of one's own previous requirements”, “previous inflated promises”, “overestimation of one's capabilities” - techniques that can give an advantage in communication with new and low-skilled partners;
• “last minute requirements”, when after reaching an agreement an additional condition is put forward and the partner, in order not to break the agreement, can easily agree to it;
• “packaging”, in which both favorable and unfavorable conditions for the partner are entered into one block;
• “placing false accents in one's own position”, when the party can actively defend some insignificant positions, and by giving them up, gain an advantage over other more important positions;
• "bluff" - providing pre-false and exaggerated information that may affect the position of the opponent;
• “silence” - a pronounced reluctance to open a position, sometimes with naive references to “trade secrets”;
• "preliminary negative assessment of positions without argumentation", ie a kind of psychological attack on the opponent ("your position is simply not acceptable to us!", "It is well known").

In addition to business meetings, an important role in the negotiation process is played by forms of informal communication, which help to expand and deepen business contacts and serve as a source of information. Participation in receptions is a mandatory type of official activity. Receptions are divided into day and evening, with seating at the table and without it. In addition, so-called coffee breaks during a meeting or conference are almost mandatory [15,16,21].

Daily receptions include:

• "glass of champagne" or "glass of wine" - lasts from 11 to 13 o'clock in the afternoon (served only champagne, water, juices, wine, food - not large sandwiches, nuts, cakes);
• breakfast, or lunch, can be arranged between 12 and 15 o'clock. It lasts 1-1.5 hours, of which 45-60 minutes – at the table, and 15-30 minutes - for coffee. A variety can be a buffet.

Evening receptions include:

• "cocktail", which begins at 17 or 18 o'clock and lasts two hours. Reminiscent of a daytime "glass of champagne", but the drinks are already poured into glasses;
• "a la buffet", which differs from the previous reception only in that it serves much more snacks;

• dinner - the most thoroughly furnished type of reception, usually begins between 19 and 21 hours, the duration is not limited.

Dinner can also be a buffet stylen [22,23,25].

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2.2 The value of non-verbal negotiation methods.

Nonverbal reactions - movements, facial expressions, intonation - are especially important for business communication. They can say much more about the interlocutor than his words. Australian scientist A. Pease claims that words convey about 7% of information, sound means (including voice tone, intonation, etc.) - 38%, facial expressions, gestures and postures - 55%. In negotiations, you should not remove the posture, which is perceived as closed in communication and aggression. Do not wear glasses with tinted lenses. Since facial expressions and gestures are real language, albeit without words, it is easy to assume that it will not be the same in different countries and ethnic groups. In the Middle East, people who practice Islam consider the left hand to be "unclean" And for those who negotiate in an Islamic country, it is necessary to remember this. In general, you need to follow the rule: if the meaning of a gesture is not known, you should not use it when talking to a foreign partner, because he will either misinterpret it or will not understand.

There are four types of distance in negotiations: intimate, personal, social and official. The first two are usually combined in practice. Representatives of different nations, talking, try to keep the following distances:

• close - Arabs, Japanese, French, Greeks, Italians, Spaniards, Latin Americans;

• middle - British, Swedes, Swiss, Germans, Austrians;

• large - the white population of North America, Australians, New Zealanders.

Smile and look - one of the most effective methods of nonverbal communication. National features of business communication in different nations differ significantly. Americans are direct people, so they value honesty and openness; try to avoid formalities and consider the merits. The style of their business communication is professional.

The French are more gallant than polite, skeptical, at the same time quick to admire, like to talk about historical topics, negotiate quite harshly, make decisions for a long time, according to a complex bureaucratic system [15,16,21].

The British are characterized by restraint, a tendency to understatement, entrepreneurship, thrift, and especially punctuality. They can meet, but will strictly follow the laws. For the British, silence is not a sign of consent, but only the ability to listen patiently to the interlocutor. Germans - hard-working, organized, rational, thrifty, serious, business connections can be established as a result of exchanging letters with a position on cooperation. They are distinguished by high professionalism, unconditional fulfillment of their obligations, focus on long-term relationships.

Italians - expansive, impulsive, sociable. Great attention is paid to the fact that negotiations are conducted between persons who occupy approximately the same position in the firm, business environment or society, especially sensitive to compliance with the rules of business ethics. Spaniards - serious, open, gallant, inclined to work in a team. The Spanish partner must be notified of your arrival. It is not customary to schedule a meeting with the Spaniards around noon. They may be late for a meeting, the regulations are often not followed, so negotiations are less dynamic.

Questions for self-control

1. Name the main ways of business communication. What are their features?
2. Name the main stages of business negotiations.
3. Should outsiders be involved in business negotiations with foreign partners?

4. How exactly can you non-verbally approve or deny the position of a foreign partner?

5. Do foreign partners have national negotiating characteristics? How can you use them?

6. Name the main methods of disclosing information during negotiations.

7. Do you agree with the statement that the basic methods of negotiation allow you to manipulate the opinion of the interlocutor?

8. Name the main types of techniques used for business communication. What are their features?

Topic 3. The process of preparation and conclusion of a foreign trade agreement

3.1 The essence of international trade agreements.

3.2 Classification of foreign trade transactions and agreements.

3.3 Types of contracts in international activities.

3.4 Structure of international purchase and sale contract

3.5 Preparation for the conclusion of international purchase and sale contract

3.6 Unification of the rules for concluding international trade agreements for the purchase and sale of goods.

3.7 The role of international trade customs in the process of concluding an agreement.

3.8 International Commercial Terms (INCOTERMS).

3.1 The essence of international trade agreements.

Internationalization of industrial production on the basis of mutual supplies of products, services, results of creative activity is a characteristic feature of modern world economic relations. It is this nature of economic cooperation that determines the forms, methods, and content of international trade transactions.

An international trade transaction is an action aimed at organizing, conducting and regulating the process of exchange of goods, services, products of intellectual labor between two or more contractors from different countries.

The main international trade operations are as follows: export-import operations, which mean commercial activities related to the purchase and sale of goods that have a tangible form.

Export transactions are activities that involve the sale and export of goods abroad for transfer to the ownership of a foreign counterparty.

Implementation of export operations involves:

• submission to the customs authority of documents certifying the grounds and conditions of export of goods outside the customs territory of the country;

• payment of taxes and fees imposed on the export of goods;

• compliance by the exporter with the requirements of the law.

When carrying out re-export operations, goods that were previously imported into the customs territory of a given country are exported outside its customs territory without export duty payment and without any non-tariff regulation of foreign economic activity. Re-export operations are carried out under the following conditions:

• a permit for re-export of goods has been submitted to the customs authority;

• goods that are re-exported, first, are in the same condition in which they were at the time of importation into the customs territory of the country, except for changes due to physical and economic loss under normal conditions of transportation and storage; secondly, they were not used for profit; thirdly, they are exported no later than one year from the date of their importation into the customs territory of the country.

Import operations are activities related to the purchase and import of foreign goods for their subsequent sale on the domestic market [47,51-55].

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Implementation of import operations involves:

• submission to the customs authority of documents certifying the grounds and conditions of import of goods into the customs territory of the country;

• taxes payment and fees levied on goods when imported into the customs territory of the country in accordance with its laws;

• compliance with the requirements provided by law for non-tariff regulation measures and other restrictions.

When carrying out re-import operations, goods that have been exported outside the customs territory of the country are released for free circulation in its customs territory with exemption from customs duties and without non-tariff regulation measures of foreign economic activity. Goods may be moved across the customs border of the country in the mode of re-import, if they:

• originate from the customs territory of this country and are imported not later than one year after their export;

• were not used outside the country of origin for profit;

• are imported in the same condition in which they were at the time of export, except for changes due to physical or economic loss under normal conditions of transportation and storage.

In the case of re-importation of goods within one year from the date of their export, the amount of export (export) duties paid on their export are returned to the owners of these goods or their authorized persons on the basis of their applications.

The person moving the goods in the re-import mode pays the amounts received by the exporter as payments or at the expense of other benefits provided during the export (export) of these goods, as well as interest on these amounts.

Thus, *export-import operations* are considered completed if the goods are passed through the state border of the counterparty, for which it is necessary to perform certain customs formalities and procedures [1,2,40].

Following *peculiarities* are typical for international trade agreements:

- expansion of the range, variety, supplies of intermediate products, fast changes of products, complication of products entering the world market, resulted in the extension of the terms of contract implementation;

- complex nature of the agreements for the supply of equipment for companies, i.e. supply of machinery, equipment, materials is provided in conjunction with the technology and engineering services;

- an increase in the number of agreements on economic cooperation, that include the supply of equipment and materials, and implementation of obligations on financing, insurance, various forms of payments;

- expansion of "turnkey" supplies, i.e. the seller fulfills complex of works on construction of an enterprise;

- making big deals with companies from different countries through the establishment of consortiums that are often temporary and long-term intercompany alliances;

- purposefulness of international trade agreements, i.e. that orientation on a specific customer, which involves establishing direct connections w ith consumers carried out on the basis of pre-orders for pre-approved supplies.

3.2 Classification of foreign trade transactions and agreements.

In international practice, there are also transit operations, in which goods and vehicles are moved under customs control between two customs authorities. Transit operations are direct and indirect.

Direct transit operations mean the carriage of goods from one country to another through the territory or airspace of a third country. These transactions are not included in exports or

imports and are taken into account by type of vehicle, cargo quantity, country of departure and destination. *Indirect transit operations* mean the warehousing of goods in customs warehouses for the purpose of their processing and subsequent export to another country.

The implementation of international trade transactions involves the use of legal forms and specific methods of their conduct.

Contract is considered to be international only on condition that its parties are in different countries. If the contract is concluded between parties of different nationality, which firms are located in one country, in this case the contract is not considered to be international. The contract is considered to be international if the contract is concluded between the parties of the same nationality, which firms are located in different countries.

International trade agreement, depending on the object of purchase and sale is made in several forms, these are: the form of a purchase and sale contract of goods in material form, the contract of purchase and sale of services, the contract of purchase and sale of products of intellectual work.

Parties (contractors) of international trade agreements are the firms, businesses alliances (associations), government agencies and organizations, international economic organizations of the UN system.

The firm is the enterprise that pursues commercial goals while economical activity. Firms carry out the vast majority of international trade agreements. Firms operating in the global market, differ by type of economic activity, current operations, legal status, the nature of the property, by capital belonging and control.

The legal form of international trade transactions is an international trade agreement, which means an agreement between two or more counterparties located in different countries to supply a certain quantity and quality of goods, services, exchange of scientific and technical knowledge, lease.

An international trade agreement, depending on the object of purchase and sale is made out in the form of a sales contract in material form, a services sale contract, intellectual labor products sales contract [3,40,51-55].

Business alliances are non-profit associations of certain groups of entrepreneurs, the purpose of which is not to receive profit, but to represent the interests of these groups of entrepreneurs in government agencies and assist in organizing international activities, including the expansion of international trade. Businesses alliances are established in the form of associations, leagues, federations, councils, conferences and so on. There are many thousands of alliances, which, depending on their functions, membership, types of activity can be local, national, international, industry (sub-branch) in developed countries.
Representatives of the major business alliances in international trade participate in the development of laws drafts on trade policy, patent law, taxes; provide exporting firms with export and other subsidies; prepare and conduct negotiations for concluding trade agreements with foreign countries; participate in the provision of export credit guarantees and in protection of the domestic market from foreign competition by imposing special import taxes, anti -dumping duty etc. However, business associations, as non-profit organizations, often act as counterparties of international trade agreements.

Public authorities (ministries and agencies) and organizations have the right to participate in international trade agreements only after receiving a special permission of the government of the country. Thus, the right of entering foreign markets is used: in the US - State property management (purchase and sale of strategic materials, export of silver), in the UK - Department of Trade and Industry, in India - Ministry of Defense and Ministry of Agriculture. Most government agencies and organizations have the right of entering foreign markets, placed in developing countries.

International organizations of the UN system, acting as counterparties of exports and imports of goods and services in the global market, are mainly engaged in construction of investment projects. Thus, they provide technical assistance in the field of

pre- investment works (UNDP), fulfill the full range of services in the construction of "turnkey" objects on the basis of commercial contracts concluded with specialized engineering firms (UNIDO, UNCTAD, UNEP, FAO, ILO) . Constructed facilities are transferred to the government of the country-recipient of technical assistance on previously agreed terms [29-31, 32, 33].

3.3 Types of contracts in international activities

The basis for the implementation of foreign trade operation is the foreign trade contract that is the materially executed agreement of two or more entities of foreign economic activity and their foreign contractors, aimed at the establishment, modification or termination of their mutual rights and obligations in foreign economic activity.

Different types of foreign trade agreements are used in international commercial practice: contract of sale, license, lease, engineering, insurance, transportation, maintenance of production, loans, etc. Their structure, content, and features are determined by the type of foreign trade operations, which they accompany. But the international contract of sale is used more often in foreign trade. Therefore, it is advisable to consider the content and features of these contracts.

International contract of sale is a commercial document, which is the agreement of goods supply and, if necessary, related services, agreed and signed by the exporter and importer.

Contracts of sale, depending on the timing of delivery and payment options, are divided into:

- single and periodic delivery;
- payment in the monetary and commodity forms (fully or partially) [2].

Contract of sale with single delivery is a one-time agreement, according to which it is expected to supply from one party to the other one the quantity of goods, agreed between them, to a specified date fixed in the contract. Delivery of goods is carried out one or more times during the agreed term.

There are two types of *single-supply contracts*:

- with short-term. They are usually used in the process of concluding agreements of raw materials. Delivery may be established on the specified date or period, and uncertain, for example, after the occurrence of event;
- with long-term (3-5 years or more). They are usually used in the process of concluding trading agreements in equipment, aircraft, ships, ship units, sophisticated equipment, etc.

Terms of contracts with long-term delivery vary depending on methods of their conclusion: direct or indirect, when the exporter is taking part in bidding, which is organized by the importer. Contracts for the unique equipment are concluded on the basis of direct contacts, the monopoly supplier of which is the manufacturer - exporter, highly specialized firm or consortium, which acts on behalf of its main company. Contractors are companies of industrialized countries, supplying equipment for the facilities, the building of which is carried out by firms of importing country.

More standardized conditions are characteristically for contracts, concluded through international bidding, because the participants of bidding offer their conditions, focusing on the tender conditions. The content of the contract differs with laconism and references to the tender conditions.

The contract of sale with the periodic delivery is an agreement that involves regular, periodic supply of agreed quantities of goods within a specified period. These contracts are short-term (usually annual) and long-term (average delivery time is 5-10, sometimes 15-20 years).

Long-term contracts are concluded for the supply of industrial raw materials and semi-finished products (coal, oil, petroleum products, natural gas, ores, pulp and other products).

The contract of sale with payment in monetary form involves the calculations in

currency, methods and forms of payment agreed by parties.

The contract of sale with payment in the commodity form. The selling of one or more products simultaneously associated with the purchase of other goods and payments in foreign currency are not made. These are barter and compensation agreements. A simple exchange of agreed amounts of one commodity to another is assumed in barter contracts. They indicate quantity of goods mutually supplied or the sum by which the parties supply products. The supply of goods on equal value is expected in compensation contract as well as in barter, however, in contrast to a barter agreement, the parties agree the price of goods supplied mutually. There are usually not two products, but large amount of goods offered for exchange [8-10].

The contract of sale with payment in mixed form. The subject of contact is usually construction on conditions of directed lending of "turnkey" company.

Payment of expenses is partially carried out in cash and partially in the form of commodities. Part of goods, implemented beforehand in the contract, will be supplied from a built enterprise. Three long-term contracts are also implemented in it, for the same amount: the contract of sale of technical tools and services for the construction of company; agreement on long-term loan; long-term contract for the supply of raw materials.

The obligatory condition of the contract is the transfer of ownership of the goods from the seller to the buyer.

The contract of sale is conditioned with the content of contractual terms, the order of their performance and responsibility for implementation. [47, 51-55]

3.4 Structure of international purchase and sale contract

Business entities have the right to use well-known international orders, recommendations of international bodies and organizations in creating the text of the agreement.

The rights and obligations of the parties of the contract are determined by the right of place of its conclusion, unless the parties have agreed otherwise, which is reflected in the agreement.

The conditions that must be provided in the contract are.

1. TITLE, NUMBER OF AGREEMENT (CONTRACT), DATE and LOCATION OF ITS CONCLUSION.

2. PREAMBLE.

The full names of the parties - participants of foreign economic operations, under which they are officially registered, indicating the country, short definition of the parties as contractors ("Buyer", "Seller", "Customer", "Supplier", etc.) and the names of the documents that guide contractors in the agreement (contract) (charter of company, memorandum, etc.) – must be determined in the preamble .

3. SUBJECT OF AGREEMENT (CONTRACT).

This section determines the goods (works, services) which one contractor must deliver (make) to another, indicating the exact name, grade, or final result of performed work.

It is also defined the exact name of counter supply (or the name of the product, which is the ultimate purpose of tolling) in the case of barter agreement (contract), or contract for tolling.

If the good (work, service) requires more detailed characteristic or nomenclature of goods (works, services) is large, this fact must be indicated in the addendum, which should be an integral part of the agreement (contract).

Corresponding mark about this fact) must be done in the text of the agreement (contract).

Mentioned addendum (specification) in the barter agreement (contract), moreover, is balanced by the total value of exports and imports of goods (works, services).

Appropriate technological scheme of processing must be mentioned in the addendum to the agreement (contract) for processing of the customer-owned raw materials.

4. QUANTITY AND QUALITY OF GOODS (THE VOLUME OF EXECUTED WORK, SERVICES).

The unit of measure of goods accepted for this type of products (in tones, kilograms, units, etc.), its total quantity and quality characteristics are determined in this section depending on the nomenclature.

The specific volume of works (services) and terms of their implementation are determined in the text of the agreement (contract) for works (services).

5. BASIC TERMS OF GOODS delivery (ACCEPTANCE/DELIVERY EXECUTED WORKS OR SERVICES).

This section specifies the type of transport and basic conditions of delivery (due to "INCOTERMS"), which define the responsibilities of contractors for the supply of goods and establish the time of risk allocation from one party to another, as well as a specific period of deliveries of good (some parties of goods).

The terms and conditions of the executed works (services) should be specified in the case of concluding the agreement (contract) for works (services) in this section.

6. PRICE AND TOTAL VALUE OF CONTRACT. The price per unit of measure of goods and the total value of the goods or the cost of works (services), which is supplied according to the contract, and currency of price are determined in this section. If according to the contract goods of varying quality and range are supplied, the price is set separately for each unit class, grade, and its total value must be mentioned as a separate point of a contract. In this case, the price indices can be specified in the addendums (specifications) that are referred in the text of the contract. Determination of currency of price is essential condition of the contract because currencies are not equal in their quality. It is advisable to focus countries with hard currencies on export, and countries with weak currencies – on import due to monetary point of view.

The way of fixing of the price is established in the contract. Contract price can be fixed depending on the nature of foreign trade transactions: at the time of drawing up the contract; during the implementation of the contract; till the end of the contract.

There are the following types of prices depending on the method of fixing of the price: hard (stable, fixed, and guaranteed); mobile; sliding; with subsequent fixation.

7. TERMS OF PAYMENT.

This section determines the payment currency, method, procedure and terms of financial arrangements and guarantees of fulfillment the mutual payment obligations by both sides.

The obligation of buyer (importer) for delivered goods is paid in currency of payment. If exchange rates are volatile, prices are fixed in the most stable currency and payment - in the currency of the importing country. The currency of payment is usually the national currencies of industrialized countries in trade with the firms of these countries.

It is important to coordinate some points in case of determining of terms of payment:

• when payment should be done: before, after or at the time of delivery of the goods;

• the method of payment, the form of payment, terms of bank transfer (advance payment) or terms of provided documentary letter of credit or encashment;

• conditions on the guarantee if it is necessary (type of guarantee: on request, conditional) period of the guarantee, the possibility of change in terms of contract without a change of guarantees;

• which party shall bear the costs for services of correspondent bank;

• the place of payment (currency and foreign trade regulation significantly affect for international payments. If there are significant limitations in these countries, the effective settlements are impossible).

8. TERMS OF DELIVERY-ACCEPTANCE OF THE GOODS (WORKS, SERVICES).

This section identifies the time and place of actual delivery of goods, list of shipping documents.

Delivery and transfer are performed by the number according to shipping documents, by quality - according to the documents certifying the quality of the product.

9. PACKAGING AND LABELING.

This section provides information about the packaging of the good (boxes, bags, containers, etc.), about appropriate marking, which is coated on it (name of the seller and the buyer, contract number, destination, size, and special conditions of storage and transportation, etc.), and the terms of its return, if necessary.

10. FORCE MAJEURE.

This section provides information about the cases in which the terms of the contract can not be executed by the parties (natural disasters, war, embargo, interference from the authorities, etc.). The parties are released from their obligations for the duration of these circumstances, or may refuse to perform the contract partly or wholly without additional financial responsibility. The term of the force majeure must be confirmed by chamber of commerce and industry of the appropriating country.

11. SANCTIONS AND CLAIMS.

This section establishes the procedure of application of the penal sanctions, compensation of damages and presenting the claims due to failure or improper performance of counterparty obligations. The amounts of penal sanctions (in percentages from the cost of not-delivered good or unpaid amount of money), terms of payment of penalties (from which period they are set and how long they or their guarantee size work), period of application of claims, rights and obligations of the parties of the contract, ways of settlement of claims must be clearly defined.

12. SETTLEMENT OF DISPUTES AT COURT.

This section identifies the terms and procedures of dispute settlement at the court concerning the interpretation, failure and/or improper execution of the agreement (contract) with the indication of the name of the court or clear criteria of acourt for any of the parties depending onthe subject and nature of the dispute and parties agreed range of substantive and procedural law that will be applied by this court, and the rules of procedure of court settlement.

13. LOCATION (RESIDENCE), ADDRESS AND PAYMENT DETAILS OF PARTIES.

Full legal address, postal and payment information (№ of account, bank name) of contractors of the contract must be mentioned in this part. The additional conditions may be defined in the contract behind the arrangement of two sides, such as: insurance, quality assurance, terms of attracting sub executors of the contract, agents, carriers, defining loading standards (unloading), the terms of the transfer of technical documentation for the product, conservation of trade marks, order of the payment of taxes, duties, fees, different

kind of safeguard clauses at what point the contract takes effect, the number of signed copies of the contract, the possibility and the procedure for making amendments and additions to the contract, and other data. Export and import transactions for purchase and sale include several stages: preparation for the conclusion of the contract, conclusion of the contract and contract execution [8-10, 51-55].

3.5 Preparation for the conclusion of international purchase and sale contract

The stage of preparation for the conclusion of the contract on the basis of direct links includes:

1. The choice of contractor. Such factors must be accounted in the process of choosing the contractor:

- the character and subject of contract;
- country of conclusion and country of execution of the contract;
- market size and market conjuncture;
- degree of monopolization of market by large firms;

• possibility of penetration to the market;
• duration of trade relations with a particular company;
• the nature of the company activity (producer, consumer or reseller)
• connections, recommendations.

2. Establishment of the contact with potential buyer. The following methods may be used in such process:

• to send a proposal (offer) to one or several foreign buyers;
• to accept and confirm the order of the buyer;
• to send the buyer a proposal in response to his request;
• to take part in international bidding, exhibitions, fairs, and use tools of advertising;
• to send the buyer a commercial letter about the intentions to begin negotiations concerning conclusion of the contract.

The offer of one party to another to conclude the contract in commercial practice is called an offer. *Offer* is a written proposal of seller (offeror) to the possible buyer concerning the sale of goods on established conditions by seller.

There are basic terms of the agreement, which are mentioned in the offer: the name of product, quantity, quality, price, delivery conditions, delivery time, payment terms, the nature of containers and packing, order of acceptance and delivery, general conditions of supply.

There are two types of offer*: strong and free*. *Strong offer* is the written offer of exporter for sale of certain consignment of goods. This offer is sent to one prospective buyer by offeror, and indicates the period, during which the seller is bound by its proposal and can not make a similar offer to another buyer.

If the importer accepts the terms of the offer, he sends to the importer the written statement, which contains unqualified acceptance, i.e. the approval to accept all the terms of the strong offer. In case of disagreement of importer with certain conditions of offer, he sends the exporter counteroffer (i.e. new offer) with the indication of his terms and time for giving answers.

Price, payment terms, quality and quantity of goods, place and time of delivery, scope of responsibility of one party to the other, the procedure for resolving disputes are the terms, the change or addition of which are significant differences between acceptance and offer [1, 2, 7, 10].

If the buyer does not give a reply within a specified period in the offer, it means his rejection from the conclusion of the agreement on the proposed terms and dismisses exporter from his proposal.

Free offer is the offer of the same consignment of goods to several possible buyers. There is no installed time to answer, so the offeror is not bound by his offer. The consent of the buyer with the conditions, which mentioned in the free offer, must be supported by solid counteroffer. The agreement is considered as concluded after the acceptance of counteroffer by seller. Exporter accepts that counteroffer, which was obtained earlier or from the more perspective buyer.

Using a free offer for the buyer is less convenient than strong offer, because it does not give to the importer the certainty that if he sends counteroffer, he will become the owner of the goods. This offer is rarely used.

The method of preparing an agreement based on the study of conditions of order for the supply of goods, received from the buyer, is often used in international trade practice.

Orders can be confirmed and accepted to execution or rejected (the reasons must not be obligatory explained). *Order confirmation* is a commercial document, which is a message of exporter about the acceptance of terms of the order without warnings.

If the initiative comes from the buyer, his appeal to the seller about sending an offer (proposal) is called the request. The purpose of the request is to receive a number of

competitive offers from export companies.

Negotiations between contractors are conducted through exchange of letters, phone calls, telegraph, teletype, facsimile, etc., but personal contacts, as a rule, play the decisive role.

There are documents, which must be issued in preparation for the conclusion of export transactions:

• proposal (offer);

• contract;

• order confirmation;

• proforma invoice (a document that serves as a preliminary account, but not the basis for payment);

• request for delivery instructions (is given by the supplier with the request to the buyer to inform the instructions regarding terms of delivery of ordered products);

• tender (proposal of the offeror, who takes part in bidding, which meets customer needs and confirms that offeror agree to take technical specifications indicated in the works and provides an indication of the proposed price or value of the work).

There are documents, which must be issued in preparation for the conclusion of agreements:

• request;

• letter of intent, by which the buyer informs the seller about acceptance in principle of supply and agreement to begin negotiations on the conclusion of the contract;

• order (it includes instructions for delivery of ordered products, the number and size of partial deliveries, their terms, dispatch address, type of transport, carrier's name and instructions for packaging);

• tender documentation.

3.6 Unification of the rules for concluding international trade agreements for the purchase and sale of goods

The practice of international trade is characterized by a significant degree of legal unification, the purpose of which is to reduce legal barriers to international trade through the development and application of international legal instruments adopted at the interstate level. This applies primarily to international contracts of sale of goods.

Such international economic organizations as UNCITRAL, UNIDROIT, UNCTAD, UNECE are engaged in unification and harmonization of international trade law [27, p.35-70].

The United Nations Commission on International Trade Law (UNCITRAL) has developed the UN Convention on Contracts for the International Sale of Goods, in order to unify the terms of international trade agreements and to eliminate significant differences in national legislation. This Convention was adopted in 1980. at the UN Conference on Contracts for the International Sale of Goods, held in Vienna and therefore called Vienna. The Conference was attended by 48 countries. Since January 1, 1988. The Convention entered into force.

The Convention provides the parties with ample opportunities to formulate the terms of the agreement in accordance with their interests and taking into account the specifics of its content. It contains unified rules governing the international purchase and sale of goods, which apply to most countries with different economic and legal systems and are aimed at removing legal barriers to international trade [31,33,35].

The Convention is of a normative nature, but the parties may derogate from any of its provisions or change its effect in the contract.

The peculiarities of the Vienna Convention are that it:

• contains unified rules for concluding and executing agreements for the international purchase and sale of goods;

• helps to speed up, facilitate and reduce the cost of negotiations, because there is no need to study the legislation of the contracting country;

• creates preconditions for unambiguous interpretation of the rights and obligations of the parties;

• promotes the elimination of unequal discriminatory relations in international trade;

• determines the obligations of the seller and buyer under the contract;

• regulates the relations between the contractors regarding the objects of the contract in case of disputes between the parties concerning the countries that are not parties to the Convention;

• establishes the list of objects of the contract of sale to which its action does not extend;

• determines the features of the contract of sale to which the Convention does not apply.

Part III. Purchase and sale of goods. It includes: general provisions (Articles 25-29); obligations of the seller: delivery of goods and transfer of documents, conformity of goods and the rights of third parties; remedies in case of breach of contract by the seller (Articles 30-52); obligations of the buyer: payment of the price; acceptance of supply, remedies in case of breach of contract by the buyer (Articles 53-65); risk transfer (Articles 66-70); provisions that are common to the obligations of the seller and the buyer: the alleged breach of contract and contracts for the supply of goods in separate lots; losses; interest; release from liability; consequences of contract termination; preservation of goods (Articles 71-88).

One of the most important documents developed by UNCITRAL is the Convention on Limitation Periods in the International Sale of Goods (1974). It establishes uniform rules on the time limits within which disputes arising from contracts must begin, as well as the statute of limitations [35-37].

The International Institute for the Unification of Private Law (UNIDROIT) occupies a significant place in the development and establishment of general rules for international trade. The Institute has developed many international legal documents, which are adopted at the interstate level: the Convention on Unanimous Laws on the International Sale of Goods; International Convention on the Contract of Tourism; Convention on the Representation (Agency) in the International Sale of Goods; Convention on International Financial Leasing; Convention on the International Factoring Agreement, etc. In addition, the Institute develops alternative methods of unification: standard laws and recommendations, codes of conduct in certain areas of activity, standard forms of agreements.

An important role in unifying the procedure for concluding and executing an international sale and purchase agreement is played by the Convention on the Law Applicable to International Sale and Sale Agreements (referred to as the Hague Convention). It was developed by UNIDROIT in 1985. presented and opened for signature at the extraordinary session of the Hague Conference on Private International Law (ICCPR). The session was attended by almost all economically developed countries and 30 developing countries, Asia, Africa and Latin America.

The purpose of the new Hague Convention (first version adopted in 1955) was to develop provisions supplementing the Vienna Convention, as well as the Regulations on the Unification of Conflict of Law Rules Determining the Law Applicable to Matters Not Regulated by the Same International Law Rules. The Convention is universal in nature, ie it can be applied in the member states and in cases when one or even both parties to the contract of sale belong to the state parties.

The main provisions of the Hague Convention include:

• determination of the international character of the contract of sale of goods (supplement to the Vienna Convention);

• withdrawal from the scope of certain types of international sales (personal consumption goods);

• inclusion of auction and exchange goods, vessels, electricity;

• determination of the applicable law governing the contract.

In 1994, UNIDROIT prepared the document "Principles of International Contracts". Principles to be considered when drawing up contracts:

1. Freedom of contract and its form. This is expressed in the freedom to regulate relations in accordance with the laws of the state. This principle provides:

• free decision on concluding or not concluding a contract;
• free choice of contractors;
• free definition of the content of the contract;
• free decision on the method and form of concluding a contract;
• freedom to change the contract as a whole or its individual provisions;
• the right to decide on the termination of the contract.

2. Binding of the contract. A properly concluded contract is binding on the parties as a result of the freedom to enter into the contract. The parties agree on the will and develop a rule for themselves, which will regulate specific mutual relations. In this case, in accordance with the law have the opportunity to regulate their relations at will, based on their interests. But this contract may be amended or terminated in accordance with its terms or by agreement of the will of all parties.

3. Integrity and honest business practice. Each party shall, in accordance with the treaty, act in accordance with the good faith and fair business practices accepted in the practice of international trade, and shall not have the right to exclude or limit this principle. Honest business practices should not be applied according to the standards commonly used within individual legal systems. Internal standards are taken into account when it is proven that they are generally accepted in different legal systems.

4. Custom and practice. Counterparties may be bound by any custom they have agreed upon and the practice they have established in their relationship. Custom is understood as a well-known order of business relations of a certain field of activity, which is constantly observed in international commercial practice.

The preparation of foreign trade contracts is also governed by the General Conditions of Sale developed by the UNCTAD / WTO International Trade Center.

In the field of regulation of international commercial practice, a wide range of issues is addressed by the United Nations Economic Commission for Europe (UNECE), namely its Committee on Trade, Industry and Entrepreneurship. The Committee includes an Expert Group on International Agreements for the Supply of Industrial Products, which develops manuals for drafting such agreements, and a Working Group on Simplification of International Trade Procedures, which develops recommendations on foreign trade information and foreign trade documentation systems.

In its activities, the EEC emphasizes the following general provisions:

- simplification of trade procedures by firms in order to increase the efficiency of international trade. This is ensured by simplifying, harmonizing and standardizing export and import procedures using all modes of transport, as well as by developing a unified system of export-import documentation for both paper documents and their electronic equivalents based on international standards;
- dissemination of access to information on world commodity markets;
- adoption of new business concepts.

To simplify trade procedures, the EEC is actively involved in the development of model contracts and their implementation in international trade practice.

A model contract is a contract or a set of uniform terms, set out in writing, formulated in advance taking into account trade practices or trade customs and adopted by the contracting parties after they have agreed to the requirements of a particular agreement.

Standard contracts apply only to certain goods or certain types of trade. They are most often used when concluding agreements on standard types of machinery and equipment, consumer goods; on industrial raw materials (long-term contracts); on mass raw materials and foodstuffs (on exchanges) [37-40].

The UNECE has developed more than 30 variants of standard contracts and general terms of sale. For example, the contract of purchase and sale of grain, the general conditions of purchase and sale for export of consumer goods of long use and metal products of serial production; general conditions of purchase and sale of softwood lumber; general conditions of international purchase and sale of citrus fruits; general conditions of export deliveries of machine equipment, etc.

Large companies in monopolized industries also develop standard contracts; international, branch national unions of businessmen; commodity exchange committees; chambers of commerce, etc. Thus, international contracts for the supply and installation of equipment can be based on a standard FIDIC contract prepared by the International Federation of Engineers. It consists of two parts: part I - general conditions with bid forms for bidders and the agreement; Part II - conditions of contract applications with instructions on the preparation of specific items.

The standard contract is periodically revised and changed in connection with constant changes in the balance of power between exporters and importers, organizational and technical conditions of trade: means of transportation, methods of determining quality, standards, etc. [31-33].

3.7 The role of international trade customs in the process of concluding an agreement.

Internationally accepted trade customs significantly affect the conditions of contract of sale that play a crucial role in resolving disputes between contractors.

Trading custom is generally accepted rule that was established in international trade (which is not a law), which includes clear and defined position on the issue to which it is connected.

Trading custom must meet the following requirements:

a) have the character of general rule, i.e. be used in all or most cases to which it applies;

b) be quite well known in the relevant field of trade;

c) be identified to its contents and be clear for understanding.

Common rules for using of trading customs are:

a) the parties are connected by any custom with respect to which they have agreed, and practices which they have established in their mutual relations;

b) in case of the absence of agreement to the contrary it is considered that the parties had in mind the use of the custom in their contract, about which they knew or should have known and which is widely known and regularly is adhered by the parties in such contracts in the relevant sphere of trade.

The information about trade custom can be found in the stock exchange rules, in the collections of chambers of commerce, the materials of the UN's commissions, in standard contracts, in the decisions of the arbitrators on specific issues [4-7].

3.8 International Commercial Terms (INCOTERMS)

The contracting parties are often insufficiently informed about the differences in the trade procedures of the countries where the commercial enterprises of the partners are located. This can lead to litigation, litigation, which entails loss of time and financial loss.

The Incoterms rules are the world's essential terms of trade for the sale of goods. Whether you are filing a purchase order, packaging and labelling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms rules are there to guide you. The Incoterms rules provide specific guidance to individuals participating in the import and

export of global trade on a daily basis.

Since its founding in 1919, ICC has been committed to the facilitation of international trade.

Different practices and legal interpretations between traders around the world necessitated a common set of rules and guidelines. As a response, ICC published the first Incoterms rules in 1936. We have been maintaining and developing them ever since.

The world business organization was pleased to announce the publication of *Incoterms 2020,* as ICC celebrated its Centenary in 2019. The newest edition of the Incoterms rules will help prepare business for the next century of global trade.

"Incoterms" is an acronym standing for international commercial terms. "Incoterms®" is a trademark of the International Chamber of Commerce, registered in several countries.

The Incoterms rules feature abbreviations for terms, like FOB ("Free on Board"), DAP ("Delivered at Place") EXW ("Ex Works"), CIP ("Carriage and Insurance Paid To"), which all have very precise meanings for the sale of goods around the world.

These terms hold universal meaning for buyers and sellers around the world. If you are a financial analyst in the City of London, then you might associate the acronym "FCA" with the United Kingdom's Financial Conduct Authority. However, for importers and exporters around the world, FCA is the initials used for "Free Carrier," or the seller's obligation to deliver the goods to the carrier nominated by the buyer at the seller's premises or another named place.

ICC last updated the Incoterms rules in 2019. While *Incoterms 2020* is the most current version of the trade terms, *Incoterms 2010* is still in effect today and can be accessed under our *resources for business.*

Basic terms of supply simplify the process of developing and concluding a contract, help partners find a way to share responsibilities.

In the contract of sale, the *basic terms of supply are the conditions that determine* [26]:

1) the rights and obligations of the parties to supply the goods sold:

- who and at whose expense provides transportation of goods on the territory of the countries of the exporter, importer, transit countries, and also at transportation of the goods by sea, river, air transport;

- the condition of the goods in relation to the vehicle, which determines the obligation of the seller for the price specified in the contract to deliver the goods to a specific place or load the goods on the vehicle or prepare it for loading, or transfer to the transport organization;

- obligations of the seller for packaging and labeling of goods, as well as obligations of the parties for cargo insurance;

- the obligation of the parties to draw up commercial documentation in accordance with the requirements of international trade practice;

- where and when the ownership of the goods passes from the seller to the buyer;

2) the moment of transition of the risk of accidental death or damage to the goods and the costs that may arise in connection therewith.

An overview of Incoterms 2020 for 11 Terms, 7 for any mode of transport.

EXW – Ex-Works or Ex-Warehouse

- Ex works is when the seller places the goods at the disposal of the buyer at the seller's premises or at another named place (i.e., works, factory, warehouse, etc.).
- The seller does not need to load the goods on any collecting vehicle. Nor does it need to clear them for export, where such clearance is applicable.

FCA – Free Carrier

- The seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place.
- The parties are well advised to specify as explicitly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.

FAS – Free Alongside Ship

- The seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment.
- The risk of loss of or damage to the goods passes when the products are alongside the ship. The buyer bears all costs from that moment onwards.

FOB – Free On Board

- The seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered.
- The risk of loss of or damage to the goods passes when the products are on board the vessel. The buyer bears all costs from that moment onwards.

CFR – Cost and Freight

- The seller delivers the goods on board the vessel or procures the goods already so delivered.
- The risk of loss of or damage to the goods passes when the products are on board the vessel.
- The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

CIF – Cost, Insurance and Freight

- The seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the products are on the ship.
- The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.
- The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage.
- The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.

CPT – Carriage Paid To

- The seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such site is agreed between parties).
- The seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

CIP – Carriage And Insurance Paid To

- The seller has the same responsibilities as CPT, but they also contract for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage.
- The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.

DAP – Delivered At Place

- The seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination.
- The seller bears all risks involved in bringing the goods to the named place.

DPU – Delivered At Place Unloaded (replaces Incoterm® 2010 DAT)

- DPU replaces the former Incoterm® DAT (Delivered At Terminal). The seller delivers when the goods, once unloaded are placed at the disposal of the buyer at a named place of destination.
- The seller bears all risks involved in bringing the goods to, and unloading them at the named place of destination.

DDP – Delivered Duty Paid

- The seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination.
- The seller bears all the costs and risks involved in bringing the goods to the place of destination. They must clear the products not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

Among all the considered basic conditions, the parties to foreign trade operations prefer the conditions of FOB and CIF. In international trade, the "FOB price" means the export price of the goods, and the "CIF price" means the import price. It is advantageous for the seller to supply the goods on these terms, as the risk of accidental death or damage to the goods from the moment the goods are loaded on the ship and the bill of lading passes to the buyer. In addition, by concluding a contract on the terms of CIF, the seller has the right to charter the vessel at its discretion. This gives him the opportunity to get additional income due to the difference between the cost of freight, laid down in the price, and actually paid to the shipowner, as well as through the use of chartered tonnage for the return flight of their imported cargo [26,27].

Questions for self-control

1. What is an international contract? How is it different from an internal contract?
2. How can international contracts be classified?
3. Name the main types of international contracts depending on the terms of payment, delivery.
4. What is the essence of the main stages of preparation of an international trade agreement?
5. Which stage, in your opinion, will be the longest, most expensive?
6. Describe the main ways to establish contact between counterparties.
7. What are international trade customs?
8. Name the main trade customs.
9.Importance of Incoterms.

Topic 4. Organizational mechanism for the implementation of international trade contracts

4.1 Conclusion of international purchase and sale contract.
4.2 Foreign trade documentation, which formalizes the implementation of a commercial agreement.
4.5 Activities of international organizations to simplify international trade procedures.
4.6 Settlement of international trade disputes

4.1 Conclusion of international purchase and sale contract

The basis for the implementation of foreign trade operation is the foreign trade contract that is the materially executed agreement of two or more entities of foreign economic activity and their foreign contractors, aimed at the establishment, modification or termination of their mutual rights and obligations in foreign economic activity.

Different types of foreign trade agreements are used in international commercial practice: contract of sale, license, lease, engineering, insurance, transportation, maintenance of production, loans, etc. Their structure, content, and features are determined by the type of foreign trade operations, which they accompany. But the international contract of sale is used more often in foreign trade. Therefore, it is advisable to consider the content and features of these contracts.

International contract of sale is a commercial document, which is the agreement of goods supply and, if necessary, related services, agreed and signed by the exporter and importer:

Contracts of sale, depending on the timing of delivery and payment options,

are divided into:

- single and periodic delivery;
- payment in the monetary and commodity forms (fully or partially).

Stages in conclusion of international contract.

Stage of the conclusion of the contract includes pre-contract period, commercial negotiations, initialing of the contract, signing of the contract. Preliminary negotiations on the future agreement and basic conditions are agreed during pre-contract period. This fact must be realized for concrete and precise nature of terms of the contract, which do not give the reasons for misunderstanding.

Negotiations are conducted through correspondence, personal meetings, phone calls or conversations or in by their various combinations.

The draft of the contract is carried out in the pre-contract period. It takes into account the actual agreement reached by the parties during the negotiations.

Parties should take into account a number of important points to avoid mistakes and losses at the drawing up the contract [4,2,15]:

1. The scope of the contract. Agreement can be short or detailed. Short contract contains minimum conditions: the subject of the contract that includes the name and quantity of the goods; price and mentioned basic conditions of supply; terms of payment). It is necessary to imagine the fulfillment of the gaps of the contract during its conclusion. Detailed contract provides a significant number of additional conditions.

Disadvantages of these agreements are:

- contract usually consists with the help of standard contracts that do not take into account the type of goods. In this case, the same conditions are provided as relative to all kinds of mass grocery and industrial goods, and relative to machinery and equipment. Typical contracts consist regardless of the nationality of the partner, and excluding the applicable law;
- relatively unusual reference to the standard conditions of sale, which are used in international trade;
- there is an attempt in the contract to predict conditions for all cases that may arise during its implementation. This complicates the negotiation process in case of the conclusion of the contract and burdens the contract by large number of general provisions.

2. The agreement must be concluded in the way, which keeps the interests of both partners and be composed according to applicable law. Therefore, this operation should be entrusted to a lawyer.

3. Contradictions or uncertainties should not be in the contract. The contradictions between individual terms of contract, not clearly defined conditions cause objections according their interpretation and it will be expensive for one party. Therefore, the phrases that could be interpreted ambiguously must be excluded from the contract.

4. If the contract is created by contractor, the essence of certain phrases and their meanings should be clearly identified.

5. Names and other information about the contractors. If there are no legal addresses of the parties, or there are: fictitious legal address of a foreign partner, or postal address for sending correspondence on the question in the contract, in this case there is no possibility to find a partner for the handing him claim materials and subpoenas concerning calling him to arbitration. It is necessary to check the legal status of the partner (his legal nature, the place of his registration, volumes of its legal capacity), its financial position, commercial reputation, authority's representative on the contract. The exporter may not receive payment for its goods, or will not be able to obtain a refund, that was paid for the imported goods, which were not delivered or delivered incomplete or with important shortcomings if all the mentioned points will not be checked.

The conformity of the name of foreign partner in the preamble and in section “Location of the parties” must be also checked. This is due to the fact that the company, which is

listed in the preamble, can not be registered in the trade register and therefore can not be recognized as a legal entity of the country, which is named as place of its location. A firm, whose registered address specified in the contract, can deny that it has signed a contract.

6. The quantity of goods and delivery time at each stage may not be mentioned in contracts that require delivery of goods in several stages.

7. Sometimes there are errors, allowed the application of the basic conditions of deliveries. This can lead to difficulties in resolving disputes, for example, on the issue of the moment in which the product is considered as delivered, and about the time of transfer of risk from the seller to the buyer.

8. The relationships between contractors are not only determined by the contract, but by the rules of applicable law. This fact must be taken into account in case of the conclusion of the contract. Disparity of contract conditions to imperative law leads to recognition of agreement in general (or its condition) as invalid. If there is no condition about some question in contract, the gap of contract can be filled by using the rules of applicable law. In this case the counterparty is not always able to fulfill a condition of the contract.

9. The contract should include the possibility of and procedure for making additions and changes in the contract. Arguments of the parties are studied and compromises may be found in the period of commercial negotiations. One party sends the second a draft of a contract in time of agreement of the terms of contract. Final text of the contract must be created after studying and finding compromises. Pre-contract documents also must be created at this stage: the discrepancy report, dispute resolution protocol, a protocol on mutual credit requirements, deal of change of the contract, cover letters for the draft of treaty, agreement (contract) of purchase and sale.

The prepared final text of the contract must be vised by each party by signatures of authorized representatives of the parties (the previous signature or initialing of the contract) and then must be signed. This is the last stage of contract.

Thus, the contract is concluded when it is signed by the parties, legal addresses of which are referred, or if it is signed by a person, which has a right to sign such documents.

If the parties of the contract are two counterparties, the contract is signed by both parties in duplicate, and if there are three or more contractors - it consists of several copies and is signed by each party. If the parties are located in different geographical points and can not sign a contract at the same time, the first copies of all contracts must be signed by one party, and then this party sends them to another party, who returns the required number of copies with two signatures to the first party.

Execution of the contract - is a process of implementing of commitments: from the side of the seller - the supply of goods, which are the subjects of the contract, to the buyer; from the side of the buyer - to pay a set price.

The seller should prepare the goods for shipment and issue the documents, which are necessary for the dispatch and receipt of payments, in definite time in order to perform its obligations [17,24].

Seller must fulfill a number of requirements during the preparation for shipment of the goods:

a) packaging of the product. These requirements take into account:

• terms of transportation (the method, the distance and duration of transportation, theability to overloading of goods during the transit, temperature and humidity during transportation, weather, transportation payment options, compatibility with other goods, etc., are taken into account);

• climate conditions (the packaging should be particularly strong, saturated with a special substance and made of special materials, like packaging in metal containers, sealed boxes, etc., in case of supply of goods to tropical countries, where there are high humidity and temperature);

• the specific of customs regime of destination country of the goods.

Packaging should be tailored to the relevant guidance contained in the customs tariff. For example, the packaging should be as easy as possible in case of levying of specific duties from the gross weight of the goods. Net weight is determined by deducting the discounts on certain types of packaging (barrels, boxes, crates, drums) from the gross weight of the package. It must be done accounted scale, which is established in the customs tariff. This is called tarn rate.

• provisions of legislation of the country of destination of goods related to the packaging. So the importation of goods in a particular package may be banned; import duties on certain types of packaging materials may be imposed;

b) product marking. Required inscriptions, images, symbols, placed on the package are understood as marking. Marking must include the mark of the country of origin, comply with customs about the size label and its application. Marking is required for proper transportation and delivery of the goods to the recipient, to relieve congestion of goods in time of transit, quantitative selection of individual pieces, to avoid confusion in time of issuing goods to various recipients [16,28].

4.2 Foreign trade documentation, which formalizes the implementation of a commercial agreement

Foreign trade documentation is a document that confirms the implementation of a foreign trade agreement, ie the supply of goods, its transportation, insurance, storage in warehouses, passing through customs. These documents are divided into the following groups:

1. Documents to ensure the production of export goods:

• purchase order. Issued at the enterprise for the purchase of products and materials necessary for the production of goods to be delivered to the buyer;

• manufacturing instructions. Issued at the enterprise and necessary for the production of goods to be delivered to the buyer;

• outfit for removal from the warehouse. Issued at the enterprise and contains instructions for the release of goods ordered by the customer;

• factoring table. Issued at the enterprise, contains information about the goods sold and is used as a basis for issuing a commercial invoice;

• packing instructions. Published at the enterprise, contains information on how to pack the goods;

• order for internal transportation - these are instructions for transportation of goods through the enterprise;

• statistical and other internal administrative documents.

2. Documents for preparation of goods for shipment:

• freight order - a document in which the supplier asks the carrier to reserve a place for a particular shipment and indicates the desired mode of transport, time of departure, etc .;

• shipment instructions, which contain detailed information about the cargo and the requirements of the exporter for its transportation;

• shipment orders (air transportation). Issued by the consignor, who informs in detail about the consignment of goods, which allows the airline or its agent to prepare an air waybill;

• notification of readiness to send. This document is issued by the supplier, informing the buyer that the goods are ready for shipment:

• shipment order - a document issued by the supplier who sends the goods to the buyer;

• shipment notice - a document by which the shipper notifies the consignee of the shipment of goods;

• a notice on the distribution of documents, in which the party responsible for issuing a set of foreign trade documents indicates the various recipients of the originals and copies of these documents, as well as the number of copies sent to each of them;

• delivery permit - a document issued by the buyer, which allows the shipment of goods after receiving from the seller a notice of readiness for shipment.

3. Commercial documents. They give a cost, qualitative and quantitative characteristics of goods. Such documents are drawn up on the form by the seller, the buyer pays against them. For the valuation of goods used commercial account - the main settlement document. It contains the requirements of the seller to the buyer to pay the specified amount for the delivered goods, as well as the following: unit price and total invoice amount;

basic terms of delivery, method of payment and forms of payment; the name of the bank where you want to make the payment; information on payment of transportation costs, insurance and the amount of insurance premium (on CIF terms). Many copies of invoices are issued, which is associated with the performance of various functions and a large number of places where you need to submit an invoice.

According to the functions performed, the accounts can be divided into the following:

• *invoice* (invoice, final invoice, account), which is issued after acceptance of the goods by the buyer. In addition to the main purpose, can be used as an invoice for the goods. By request customs authorities in many countries must be written on special forms, in which case it may be a certificate of origin or supplemented by it;

• *invoice specification*, which combines account details and specifications. It indicates the unit price according to the types and grades, as well as the total cost of the entire consignment. Discharged when the party contains different assortment of goods;

• *preliminary, provisional invoice*, which is issued when the goods are accepted in the country of destination or in case of partial deliveries. Contains information on the quantity and value of the consignment of goods to be paid. After accepting the entire batch, the seller issues an invoice, which is the final settlement;

• *proforma invoice*, like the invoice, contains information about the price and value of the party, but is not a settlement document, as it does not require payment of the specified amount. It can be written on the shipped, but not sold goods or vice versa [16,10].

Liability of the parties for violation of contract obligations

One party may apply legal remedies to the other party in case of breach of contract. They are used when there is a material breach of contract and contractor loses something that, on what counted.

When the contract is violated by the seller, the buyer may: declare about the termination of the contract; require replacement of the goods in case of noncompliance and eliminate this discrepancy by correcting; install additional time to fulfill its obligations by the seller; claim damages; reduce the price and so on.

If the buyer does not fulfill any of its obligations under the contract, the seller may: terminate the contract; demand compensation for damages, payment of the price, take delivery, performance of other obligations; install an additional period of reasonable length for performance of the contract.

There are two groups of terms that must be considered for pursuant trade agreement:

- the terms, that are not influenced and changed by partners;
- the terms, which partners can establish and change
- the first group of terms includes:
- economic and political situations of the importer's country;
- national and international regulatory system of settlements that are currently in force in international trade;
- security of payment obligations (financial status of the partner).

The second group of terms includes:

- delivery terms (time, frequency, provided transportation, insurance, etc.);
- procedure and terms of payment;
- reception of additional guaranties in time of making payments.

The most difficult is the evaluation of the first group of terms of the execution of trade agreement, which requires a significant amount of organizational and information work. The solution to this problem is recommended based on an analysis of existing ratings of countries that engage in the development of competent agencies and consulting firms [12, 19, 20].

4.3 Activities of international organizations to simplify international trade procedures

Due to the large volume of documents in the implementation of international commercial activities, there is an urgent need to unify foreign trade documents, which will not only facilitate the procedures for their passage, but also allow the use of automatic methods of data processing.

A working group on the simplification and standardization of foreign trade documents was set up within the European Economic Commission (EEC) in 1960. It included 20 European countries, including the former Soviet Union. This commission developed a large number of standard accompanying documents, which later formed the basis of sample documents developed by international organizations. The *International Chamber of Shipping* (IPC) was the first organization to adopt unified EEC documents, including bills of lading [31-34].

The use of automatic communication methods has necessitated the development of standards for coding information in the field of international trade. By 1972, the stage of standardization of international trade documents was completed and the stage of standardization began information, codes and the use of automatic data processing worldwide.

After the completion of the work on the simplification of international trade procedures, other international organizations were involved and the following organizational structure was created:

• *United Nations Economic Commission for Europe* (UNECE), which includes:
- Committee on Foreign Trade Development;
- Working group on simplification of international trade procedures;
• *United Nations Conference on Trade and Development* (UNCTAD), including:
- Trade and Development Council;
- Special trade facilitation program.

International requirements, which are mandatory at the national level, are general in nature and are subject to detail and specification at the level of individual countries, firms, organizations that are participants in international trade [34-36].

4.4 Settlement of international trade disputes

Dispute resolution is a term that refers to a number of processes that can be used to resolve a conflict, dispute or claim. Dispute resolution may also be referred to as alternative dispute resolution. Dispute resolution processes are alternatives to having a court (state or federal judge or jury) decide the dispute in a trial or other institutions decide the resolution of the case or contract. Dispute resolution processes can be used to resolve any type of dispute including family, neighborhood, employment, business, housing, personal injury, consumer, and environmental disputes.

International commercial arbitration is most often used for resolving disputes arising in the international trade between the parties of different countries.

International Commercial Arbitration (arbitration court) is a non -governmental body that is formed of persons chosen by the parties or appointed in the manner prescribed by law.

Organizations and firms of different countries usually consider that arbitration of disputes is better than judicial, concluding the contracts. Its advantages are: the relative velocity of the proceedings; voluntariness subordination of the dispute arbitration;

competence and neutrality of arbitrators and the choice by the parties of such arbitrators, which, in their opinion, are the most qualified to review a particular dispute; confidentiality of disputes; relatively low cost of the arbitration consideration, compared to the court one ; the arbitration award cannot be appealed. It should be noted that the enforceability of the arbitral award exists almost everywhere.

The condition of the arbitration order of the dispute resolution is the agreement of the parties about its transfer to arbitration. Such an agreement may be included into a foreign trade contract and in this case it generally called “arbitration clause”. It can also be in the form of a separate agreement, and then it is called the arbitration agreement, emphasizing its isolation from the contract. The basic requirement of legislation of most countries for arbitration agreement is the requirement of adherence in the written form.

In case of concluding *the arbitration agreement* it is necessary to predict:

• the place of arbitration;

• the rules of law, that can not be violated;

• the choice of substantive law according to which the dispute will be considered

• the limits of the arbitration clause;

• the choice of arbitrators;

• payment for the arbitration court to consider the dispute;

• the language in which the dispute will be considered;

• the nature of the case (the degree of openness, the term);

• the procedure, which arbitrators must follow (based only on documents, oral examination, questioning witnesses, etc.);

• the arbitration court must decide, unless the parties decide the dispute peacefully;

• the availability of influence of certain provisions of the arbitration agreement on the validity of the contract as a whole;

• cases, which determine that the procedure of th e "peaceful" settlement of the dispute has not expired yet.

The peculiarity of the arbitration agreement is obligation for the parties, who can not escape from transfer of dispute arbitration.

Arbitration agreement, including the arbitration clause in the foreign trade contract has the relative independence, the autonomy concerning the contract. This means that the validity of the arbitration agreement does not depend on the validity of the contract for which it was concluded.

The institutional structure of international arbitration is a set of different arbitration bodies, which are aimed at ensuring the security and predictability of the global trading system.

International commercial arbitration may be formed specifically for the individual case, which is called isolated or as a permanent arbitration institution (institutional arbitration).

The permanently functioning arbitrations are created by trade and chambers of commerce of countries, by the exchanges, associations and so on. There are general arbitrations that exist in chambers of commerce of the respective countries, and special, considering the specific case taking into account the type of product or type of activity (e.g. London Arbitration of Grain Trade Association, the

There are over 100 permanently functioning arbitrations. Such institutions as the ICC's International Court of Arbitration in Paris, the London Court of International Arbitration, the Arbitration Institute of the Stockholm Chamber of Commerce,

The American Arbitration Association, European Court of Arbitration. There is the International Commercial Arbitration Court at the Chamber of Commerce of the CIS, in particular, the International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry (Arbitration Court) are widely known and take advantage of the high authority.

The ICC's International Court of Arbitration is a non-governmental organization and has functioned since 1923. It is engaged in the arbitration settlement of international commercial disputes. The Rules of Arbitration and The

Optional Conciliation Rules (to promote the peaceful resolution of disputes) were created by this organization.

According to the recommendations of the ICC all parties, which want to refer to ICC arbitration, should use the following normative point, in their contracts: "All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules."

Rules of Arbitration of the ICC do not limit the parties to the free choice of law governing the contract, and the place and the language of arbitration.

European arbitration is governed by the Convention on International Commercial Arbitration, signed at Geneva in 1961. The Convention was ratified by Ukraine. European arbitration is functioned under the auspices of the UNECE.

Rules of Arbitration of the UNECE have functioned since 1996.The London Court of International Arbitration is functioned on the basis of "LCIA Arbitration Rules". There are the list of arbitrators, the scale of arbitration fees, adopted typical clause, which transmitted for consideration and final decision in arbitration.

American Arbitration is represented by the American Arbitration Association, which is governed by the Law on Arbitration of the USA, the One Arbitration Law, the Rules of Commercial Arbitration and Additional procedures of international commercial arbitration.

The International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry (Arbitration Court) is an independent permanent arbitration court, which considers economic disputes arising in foreign trade activity with contractual and other forms of international economic relations, if at least one of the parties is foreign. Its competence includes disputes arising from the relationship:

-purchase and sale (supply) of goods; works; provision of services;

- exchange of goods and / or services;

- transportation of goods and passengers; commercial representation and mediation; lease (leasing);

- scientific and technical exchange and sharing other creative works; construction of industrial and other facilities;

- licensing transactions; insurance; joint ventures and other forms of business cooperation; other forms of international economic relations.

Thus, next mentioned disputes can be submitted to the court by agreement of the parties:

- disputes from contractual and other civil legal relations arising in the implementation of trade and other international economic relations if the business of at least one of the parties of the dispute is located abroad;

- disputes of enterprises with foreign investments, international associations and organizations established on the territory of Ukraine, together, disputes between their participants, as well as their disputes with other legal entities in Ukraine.

The activity of the Arbitration Court is based on the Rules of the International Commercial Court at the Chamber of Ukraine, the Law of Ukraine "On International Commercial Arbitration" № 4002 - XII of 24 February 1994, establishing the requirements to the arbitration agreement (arbitration clause), the requirements to the order for selecting arbitrators, the rules of arbitration procedure, the procedure for the adoption of arbitration awards.

A special place occupies the UN Commission on International Trade Law (UNCITRAL) in the institutional structure of international arbitration, which is not an international arbitration center, but it developed several documents unification of the law of international arbitration, i.e. they contain common rules on prearbitration dispute

resolution and arbitration. They include: Arbitration Rules (1976), Conciliation Rules (1980), Model Law on International Commercial Arbitration (1985). These documents are based by many states for developing national legislation.

It is possible to make a link above documents by using a typical arbitration clause appearing in them. It is possible to do in the part, which concerns settlement of disputes in drawing up the international trade contracts.

Settlement of international trade disputes within the WTO

The general system of rules and procedures applicable to disputes arising between the parties of foreign relations is provided by the WTO in the GATT 1994. The authority for resolving disputes under the WTO, the WTO General Council executes its function, has the exclusive authority to create arbitration groups to consider specific disputes; to approve the reports submitted by such groups and also by the appellate body; to monitor the implementation of decisions and recommendations; to authorize the use of appropriate measures in case of default the recommendations.

The aim of dispute settlement mechanism within the WTO is to provide a positive solution of disputes, i.e. the desires of the parties to find mutually acceptable solutions to problems that arise between the member states are encouraged. The settlement of dispute is reached in the process of bilateral consultations between the interested governments.

So, carrying out of such consultations is mandatory in the first stage of the settlement of differences. The claimant may apply for the Dispute Settlement Body (DSB) to a request formation of arbitration to the proceedings, if consultations do not work within 60 days,

The procedure for conducting arbitration group is characterized in the next facts.

Each party presents to group its statement that sets out the facts and arguments relating to the dispute until the beginning the consideration of the dispute.

The arbitration group may appoint a group of experts to prepare an expert opinion, if one of the parties raises the question of scientific or technical nature [34-36].

Arbitration group represents to the parties the descriptive section of its report (factual aspect of the case and argument of the parties) and gives them two weeks to prepare comments. Then the team gives the parties an interim report on the conclusions and gives the parties a week to apply for review of the report.

The term of revision is no more than two weeks.The final report is transmitted to the parties of the dispute within six months. The period of the report is reduced to three months in case of urgent need when it is about perishable goods. The report is distributed to all members of the WTO in three weeks after transmission of the report to the parties. If the arbitration group recognizes that the considered event contradict the conditions of the relevant WTO agreements, it recommends the member state that has implemented this measure, to bring it into conformity with this agreement. The group can also offer ways to implement the recommendations. The reports of the arbitration group shall be approved by the DSB [27,30].

The mechanism of the WTO dispute settlement provides the opportunity for the appeal of each party. An appeal is considered by the permanent appellate body created by the DSB and consists of 7 people. The term of appeal shall not exceed 60 days. The appellate body has the right to confirm, change or cancel the legal conclusions and conclusions of the arbitration group. The DSB accepts the report of the appellate body that, in the unconditional order, must be adopted by parties of the dispute if there is no general opinion, that the report should not be accepted.

Immediate implementation of recommendations of the DSB is a prerequisite condition for effective dispute resolution.

The violated party (defendant) should state its intentions in respect of the recommendations at the meeting of the DSB conducted within 30 days after the adoption of the report of the arbitration group or the report of the appellate body. If the immediate implementation of the recommendations is not possible for objective reasons, DSB establishes the “reasonable time” for their performance.

The respondent party is obliged to negotiate with the claimant to determine mutually conciliatory compensation, such as the reduction of tariffs in sectors that are of particular interest to the plaintiff in case of failure of the recommendations within the prescribed period.

If the satisfactory compensation for the plaintiff will not be agreed, the claimant may apply to the DSB for sanction to suspend concessions or obligations of the defendant.

The action of concessions stops in that sector of trade in respect of which the dispute arose. If this measure is for some reason ineffective or cannot be implemented for practical reasons, the action of concessions stops in respect of other sector of trade, but within the same transaction, and if it is not possible, the action of concessions stops within the other WTO agreements.The DSB controls implementation of the adopted recommendations or legal definitions, and any unresolved dispute will remain in its agenda till the full solution [30,32,33].

Questions for self-control

1. What is the essence of an international trade agreement?
2. Who is a counterparty to international trade agreements?
3. What is the implementation of export and import operations?
4. Under what conditions are re-export and re-import operations carried out?
5. What is the essence of transit operations?
6. When is an agreement considered international?
7. What is the importance of unifying the rules of conclusion international trade agreements?
8. What is the essence of the UN Convention on International Treaties purchase and sale of goods?
9. How is the simplification of international trade procedures carried out?
10. What is meant by a standard contract?
11. Name the main stages that the goods go through before shipment.
12. What are the main types of product labeling do you know?
13. What are the main requirements for the transportation of goods?
14. Name the main types of documents that accompany the implementation of international contracts of sale: sale.
15. What is the activity of international organizations for the unification of international document flow?
16. Settlement of international trade disputes.

Topic 5. Organization of international trade and development of world commodity markets

5.1 International commodity agreements.

5.2 Organization of sales through international commodity exchanges.

5.3 International auctions.

5.4 Organization of wholesale procurement.

5.5 Features of concluding and implementing contracts for complete equipment.

5.6 Features of implementation of long-term contracts for raw materials and semi-finished products.

5.1 International commodity agreements.

Raw materials - a generalizing concept. It combines mineral raw materials, products of its enrichment and processing (ferrous and non-ferrous metals), agricultural raw materials of plant and animal origin and products of its processing, chemical products and food. Trade in raw materials takes various forms, both inherent in it and characteristic of trade in other products. These are international commodity agreements, auction and exchange trade, wholesale purchases.

International Commodity Agreements (ICA) on raw materials are similar in content to intergovernmental agreements of importers and exporters of certain types of raw materials. The purpose of these agreements is to regulate and limit the scope of activities of multinational companies (TNCs), to slow down speculative and dumping processes. Depending on the target mechanism of international commodity agreements, they are divided into three groups - stabilization, administrative and agreements on commodity development measures.

The most common are stabilization agreements, which are based on an economic mechanism that can affect world prices for specific raw materials (oil, tin, natural rubber, coffee, cocoa, etc.) in two ways: the creation of a stabilization (buffer) stock of raw materials (containment system)) and the establishment of quotas. The first method involves fixing in the agreement of the maximum and minimum price levels, within which price fluctuations for commodity markets are acceptable. If the price falls below the allowable level, the parties to the agreement on a parity basis temporarily withdraw from the market part of the product (purchase), creating a buffer stock, which later (when prices rise) returns in the form of increased sales. The quota system is used in case of insufficient influence of the first method and consists in the obligations of the largest exporters to limit the supply of raw materials. The quota mechanism is applied in the form of quantitative supply restrictions either for all participating exporters (total quotas) or for some of them (individual quotas).

Administrative commodity agreements are concluded in order to analyze the situation in the commodity markets and develop general recommendations for its stabilization. Usually such agreements are the subject of discussion [34-36].

Commodity agreements on raw material development measures are aimed at expanding and strengthening the export potential of countries - producers of raw materials of various kinds (wood of valuable species, jute, vegetable oils).

This is achieved through the implementation of projects to support non-essential infrastructure and environmental protection, promoting the participation of producers of raw materials in processing, as well as in streamlining trade in processed products.

5.2 Organization of sales through international commodity exchanges

International Commodity Exchanges (ICEx) are permanent markets where large volumes of homogeneous and interchangeable goods are traded with stable and clear quality parameters. At the exchanges themselves, the product is usually absent, and is sold and purchased without prior inspection and presentation according to established standards and samples. The seller on the exchange sells not the product itself, but only a document confirming the ownership of this product, against which the buyer has the right to receive the goods from the stock exchange.

The objects of international trade are about 70 goods, the share of which in world trade is about 30%. Traditionally, the international exchange turnover is approximately equally distributed between the two groups of goods. The first group is agricultural and forestry goods, the second is industrial raw materials and semi-finished products.

Two *types of agreements are concluded on exchanges*:

- agreements on real goods;
- futures (futures) agreements.

Transactions on real goods end with the actual transfer of goods from buyer to seller. The seller must have this product before the appropriate deadline and put it in stock exchanges. Instead, he receives a warrant, which he keeps for the term of the agreement, after which, after paying the costs of storage and insurance, he transfers the warrant to the buyer. Transactions for real goods are divided into the following:

• agreements with immediate delivery (for available goods) - the goods must be placed in one of the warehouses of the exchange and be delivered immediately (for a period of 1 to 15 days depending on the rules of the exchange);

• future supply agreements (term agreements, forward agreements) - the price of the goods and delivery terms are fixed in the contract, the duration of the terms is determined by the rules of the exchange (up to 14 months).

Agreements with subsequent delivery include agreements on goods in transit, as well as agreements on goods with subsequent arrival (after 10, 20, 30 or 60 days).

Futures agreements, in contrast to agreements on real goods, do not provide for the obligation of the parties to supply or accept real goods, and the purchase and sale of rights to goods. The result of such agreements is the payment or receipt of the difference between the value of the contract on the day of conclusion and the day of performance. The cost of the contract changes due to changes in the price of the goods.

The term of delivery under a futures contract is determined by the duration of the position. On average, the duration of positions ranges from 4 to 8 months, although it can reach 48 months, for example, for oil.

Contracts are completely unified. They provide for the possibility of supplying a strictly fixed quantity of goods, several types, quality or varieties of goods in accordance with the rules of the exchange, in warehouses established by the exchange or under conditions of a strictly regulated period of time. The task of the parties involved is only to reach an agreement on the price.

An important feature of exchange transactions is that the bulk of them (98-99%) is not completed by supply under a futures contract, and the liquidation of these transactions as a result of a counter-transaction - sale (in case of purchase), ie the volume of deliveries of real goods does not exceed 2% of the number of contracts [10,16,21].

The main *tasks of international exchanges* are to create a convenient place for trading; providing trade and economic information and communication; development of standards for goods and standard contracts, uniform rules and regulations that provide equal and competitive conditions for all participants under the law in terms of fulfilling the obligations of each party; determination of stock quotes, quality of goods; performing arbitration functions.

5.3 International auctions

International Commodity Auctions (ICA) are special markets that are specially organized in pre-arranged places and operate at specified intervals at specified times and under specified conditions.

There are two main types of commodity auctions: those that are conducted voluntarily, and those that are mandatory.

In turn, the first type is divided into regular auctions, where wholesale transactions are concluded with ordinary market goods, and irregular, ie retail transactions with both market and non-market (antiques, postage stamps, coins, works of art) goods. Moreover, transactions with market goods are carried out in the event of the need for urgent reduction of excess stocks or satisfaction of creditors' claims. In this regard, the AIT should be distinguished from auctions held in the domestic market of the state by the judiciary, when the public auction is the forced sale of property of insolvent debtors in order to recover debts from them. In the same order from

public auctions sell the goods which were not demanded in time by owners from transport and warehouse firms, and also in some other cases (irregular auctions) [6,8].

Thus, according to the above classification, international auctions belong to the voluntary and regular forms of trade in the foreign market, which has a public character, with the opportunity to participate in trade transactions to all interested exporters and importers.

The object of purchase and sale at international auctions are mostly agricultural and forestry products, as well as fisheries. Trade operations take place only with the available goods, which have pronounced individual properties (often with perishable goods) and a certain frequency of entry into the market and are sold in batches.

The goods are sold on auctions for the auction prices. These are real prices, that are set at auction as a result of the relation between supply and demand, and the main feature of their forma tion in most cases is the presence of the large number of buyers and one or many sellers.

International auctions are classified according to specific characteristics. By the time of carrying out the auctions are divided into regular and irregular. Regular auctions are held by special auction firms in the same places at a certain time (one or more times per year). Irregular auctions are held when there is a need to sell goods.

By the form of trade auctions are divided into open and closed auctions. Auctions of open form are organized usually by a corporation that monopolizes trade of certain goods and dictates the purchase prices on these goods. Buyers are direct participants in the auction. Auctions of closed form are organized by specialized brokerage firms that resell goods. Buyers and sellers are not directly involved in auction.

According to a source of profit there are three types of auctions. *The first type* - auctions receiving profit from the difference between the resale price (wholesale buyer or dire ct consumer) and the purchase price. *The second type* - auctions which carry out the resale of independent producers products in terms of commission. The amount of commission depends on the transaction amount and type of goods. Thus, the American auction “Sotheby's” has developed such practice of paying commissions: if the sum of deal on jewelry ranges from 120 thous. to 1,2 mln. swiss francs, then the auction receives 6% of the transaction plus reimbursement of expenses, and if more than 20 mln. - then 2% of the transaction and compensation for half the cost. When selling paintings and vintage furniture, commission can reach up to 12%. *The third type* - a mixed model of the auction at which the firm performs both resale and commission operations.

By the functional orientation the auctions may be commercial and both commercial and industrial. Auctions, that are trading firms, have the appropriate facilities, equipment, qualified personnel. Auctions, that are commercial and industrial firms, also have their own production that allows completing the preparation of goods for sale. For example, the production of bought up fur pelts from purveyors.

By the character of activity the auctions are divided into specialized, brokerage and commission, auction firms owned by cooperatives, unions of producers [3,6,9].

5.4 Features of concluding and implementing contracts for complete equipment

Sales contracts for complete equipment are as follows:

• complex content;

• a large number of different conditions and features in the formulation of responsibilities of the seller and buyer;

• a wide range of responsibilities of the seller, as well as close ties, which are realized after the delivery of equipment.

An *important feature of contracts for complete equipment* is that they establish links both between the exporter and the buyer - the importer of equipment, and between specialized firms involved in the completion of such supplies, ie subcontractors. In this case, the general contractor

organizes the complete set of delivery and is responsible to the buyer for its timeliness and quality. On the other hand, he contacts the subcontractors directly, placing orders with them and monitoring the timeliness of their execution, as well as compliance with the requirements of the specifications.

The delivery process in *contracts for complete equipment* includes the following aspects:

• project documentation, technical documentation (engineering consulting services);

• equipment of a certain capacity, indicating the consumption of raw materials and fuel, as well as the yield of the finished product;

• technological, auxiliary, control and measuring and other equipment;

• technical services - sending specialists to the customer for consultations, installation, commissioning, commissioning of equipment, training of local staff.

The development of the project (product) is carried out taking into account the requirements of the buyer, often on the basis of its specifications and technical and economic conditions. This means that the buyer either fully sets the parameters of the future product, or participates in its development.

The project is based on previously performed searches and research in which the buyer participates. The scope of delivery also includes technological, auxiliary, control and measuring and other equipment.

In addition to equipment and materials, the subject of supply includes technical services - the participation of specialists in advising the customer, installation and commissioning, commissioning of equipment, training of local staff [2,11].

5.5 Features of implementation of long-term contracts for raw materials and semi-finished products

The current stage is characterized by the growing role of long-term contractual relations, carried out on the basis of long-term commercial contracts in the field of trade in raw materials and semi-finished products. The practice of their conclusion is of different importance in different world commodity markets: more important - in the markets of fuel and industrial raw materials and less - in the markets of processed raw materials and semi-finished products. Thus, the share of long-term commercial contracts in world exports of minerals (excluding oil sold under annual contracts) is 50-60%, and in exports of processed raw materials - 5-7%.

The largest objects of trade under long-term contracts are goods for which the share of long-term contracts in exports is as follows: natural gas - 70-80%; coal - 75%; iron ore - 60-70%; oil - 10-15%. These four goods account for 85-90% of the total value of raw materials sold under long-term contracts. The remaining 10–15% are accounted for by such goods as uranium concentrates (the share of long-term contracts is 80–90% of exports), tin concentrates (85–90%), lead and zinc ores (55–60%), platinum and palladium (40–60%), diamonds (40–45%), bauxite and alumina (30%), cellulose (30%). Under long-term contracts, Germany supplies 70% of iron ore imports, the United Kingdom - 50%, Japan - 95%.

On the basis of long-term contracts, specialized products are supplied, including components, parts, components (components for assembly), which contributes to the growth of the technical level of products.

Trading on long-term contracts has *significant advantages*.

First, raw materials, unlike products of the manufacturing industry, can not become obsolete, their quality remains unchanged, which is in the interests not only of the seller but also the buyer. Moreover, if the technology of the enterprise that purchases raw materials is focused on a clearly defined type of raw materials (for example, ore with a constant metal content), the buyer is not interested even in improving the quality of raw materials supplied. *Secondly,* the needs of production in stable sources of raw materials for the long term are met, which makes it possible to adapt production to certain raw materials. *Third,* markets in which the share of

supplies under long-term contracts (preferential zones) is quite large are characterized by greater stability of supply, demand and prices than in open markets.

The process of deepening the international division of labor, specialization and cooperation of economic activities of foreign firms, the instability of the world economy contribute to the development of long-term contractual relations between contractors. Through a system of long-term contracts, relationships are established with trading partners, and companies seek to smooth out the contradictions between the planned activities of the firm and the market element [3,8,34].

The need to establish long-term contractual relations is growing due to a significant increase in capital intensity of the development of new mineral deposits. Mining companies are interested in obtaining reliable guarantees of return on investment (usually borrowed) in a timely manner. Such guarantees can to some extent be provided when concluding a long-term contract for the sale of products, for example, a mine under construction.

Questions for self-control

1. What are the main forms of trade in raw materials?
2. Possibilities of international commodity agreements in the process of trading in raw materials.
3. Possibilities of using international commodity exchanges in the organization of international trade in raw materials.
4. Possibilities and role of hedging agreements and hedging process in the organization of raw materials trade.
5. The main functions of international commodity exchanges.
6. The essence and features of the organization of international auctions.
7. Name and describe the main stages of international commodity auctions.
8. What is the peculiarity of concluding contracts for complete equipment in comparison with the usual purchase and sale contract?
9. What are the features of delivery: acceptance in the implementation of contracts for complete equipment?
10. What are the features of the financial conditions of contracts for complete equipment?
11. What are the main types of long-term transactions in raw materials and semi-finished products?
12. Compare the pricing process in the implementation of long-term contracts for complete equipment and raw materials.

Topic 6. Organization of cargo transportation in international activities

6.1 The essence of international transportation and the main factors determining the choice of mode of transportation.
6.2 Features of cargo transportation by sea.
6.3 International rail transport.
6.4 Road and air transportation of international cargo.

6.1 The essence of international transportation and the main factors determining the choice of mode of transportation

One of the most important stages in the implementation of an international trade agreement is the implementation of international cargo transportation. The timeliness of delivery and the safety of the cargo, and therefore the uninterrupted activity of the buyer, depend on how

carefully the party responsible for transportation will approach the planning of transportation, the choice of mode of transport and the carrier. In general, all types of transport are used in international transportation, including sea, river, rail, road, air and pipeline.

There are the following *types of transportation*:

• direct, ie carried out by one mode of transport;

• mixed, or combined, carried out by several modes of transport.

Under the contract of carriage, the transport organization (carrier) undertakes to deliver passengers, cargo (luggage) to the destination and issue the cargo (luggage) to the authorized person (recipient). The sender or passenger is obliged to pay for such a service.

International transportation is considered to be transportation between two or more states. The peculiarity of the contract of international carriage is the application of substantive law on the basis of conflict principles provided by international treaties, national legislation or a transport document issued by the carrier.

The choice of mode of transportation is determined by the following factors:

• cargo type, ie its characteristics such as damage rate, danger, weight and condition;

• distance and route of transportation;

• time factor;

• transportation cost;

• transportation safety and reliability.

Legal regulation of relations arising from the implementation of international transport has its own specifics. First, their most important conditions are defined in international agreements - transport conventions, which are the main source of regulation in this area of relations. The agreements contain unified substantive law rules necessary to resolve conflicts that most often arise by international and road international transport.

Enterprises, solving problems regarding transportation of goods, under certain conditions, can transfer some of these functions to specialized transport enterprises. Focusing on the main activities, the manufacturer agrees to pay high-quality services of independent firms for the implementation of logistics operations, in order to increase its efficiency.

Forwarding services is a kind of activity of specialized intermediaries (freight forwarder or forwarding agent) to provide the sender of cargo with additional services related to the preparation of products for movement. A freight forwarder or forwarding agent is an individual or a company which organizes shipments for organizations to source goods from the manufacturer to the final point of distribution or consumer. It may move a wide range of products as cargo, ranging from manufactured goods to raw agricultural products, owing to its expertise in the logistics network. The freight can be taken through a variety of shipping providers, such as ships, trucks, railroads and airplanes [10, 24].

International freights are handled by international freight forwarders, who have expertise in preparing and processing of documentation, customs and shipment.

The attractiveness of forwarding services is defined by the fact that it is inefficient to keep the state of this category of workers and the appropriate fleet of vehicles requiring special premises and repair facilities for each enterprise. Specialized logistics structures perform the necessary work more qualitatively, faster and significantly cheaper, optimizing freight flows and efficiently using existing vehicles.

The main advantages to use the services of freight forwarding companies are as follows:

1) Each consignment lot can be transported at the least cost (consolidation of goods).

2) In the forwarding company there is a large range of possible sizes and types of vehicles. It is possible to choose the most suitable for this load of the vehicle.

3) Customers can prepare the departure without taking into account the presence of the return cargo.

4) The problem of idle, empty rides and incompleteness of vehicles during the period of decline of business activity of the enterprise and the shortage of such means during the periods of its increase is excluded.
5) Forwarding services allow customers to reduce the need for vehicles and maintenance staff to a minimum.
6) Cargo flows are streamlined and optimized at all levels.
7) The quantitative parameters are lowered and the structure of scales is improved by increasing the frequency of deliveries [10, 24, 26].

6.2 Features of cargo transportation by sea.

Transportation of goods by sea has its own characteristics. Transportation can be done as follows:

• on a vessel previously chartered by the shipowner, and the vessel can be chartered either for a certain number of flights (one, two or more) or for a certain period of time, ie it is the so-called tramp shipping, in which vessels do not operate regular flights in this direction. existing schedule;

• on a liner that carries cargo regularly between ports according to the existing schedule.

Maritime transport provides transportation of 4/5 of the volume of all cargo in the world. Not only maritime states, but also "land" states, which are trying to have their own fleet, take part in international sea transportation. Among the countries where shipping is a significant source of income, there are in particular Greece, Norway, Japan. Ukraine also aspires to become such a state. The Program of Establishment and Functioning of the National Network of International Transport Corridors in Ukraine approved by the Cabinet of Ministers should contribute to this.

The specifics of the regulation of international maritime transport is the use, in addition to the rules of conventions and domestic law, also maritime customs (national and international). The relations arising in the field of international maritime transport can be divided into three main groups. First, it is a relationship related to the exercise of property rights to seagoing vessels and the implementation of various agreements in respect of them. Secondly, it is a relationship arising from the actual transportation (contracts of carriage of goods and passengers, towing, time charter). Third, it is the relationship associated with the risk in navigation, ie those arising from the collision of ships, rescue at sea, general accident, marine insurance, limited liability of the shipowner.

In the case of sea transport, the existence of a sea transport contract is confirmed by a charter. A charter is a contract that confirms the lease of a vessel (or cargo compartment on a vessel) by the seller for the carriage of cargo at his expense. There are time, charter, if the ship is chartered for a certain time, and voyage charter, when the ship is chartered for one or more flights [28-30].

Permanent time is the maximum period during which charterers have the right under the terms of a charter or other contract of carriage to keep the vessel under load and unloading, without paying anything other than the agreed freight.

Agents - persons chartered by the charterer who service the vessel (including customs formalities) and comply with the requirements of the captain.

6.3 International rail transport

Transportation by rail makes the following requirements for the organization of transportation of goods:

• cargo packing requirements. Cargo places must have labels with the name and address of the shipper and consignee, date of shipment, route of transportation, as well as information on payment for transportation;

• labeling requirements. The outer packaging of the goods must have the appropriate inscriptions in accordance with the nature of the goods, international requirements, the requirements of the country of consignor and the country of destination;

• the consignment note accompanying the cargo shipment shall indicate data on the station of departure and destination, as well as the weight of the cargo, the number, name and marking of cargo places, payment for transportation;

• transfer of properly executed cargo to the carrier.

When determining freight charges, the distance of transportation, weight, volume, nature of cargo, cost, nature of possible damages, degree of risk are taken into account.

Upon arrival of the goods at the station, the buyer receives a notice of his arrival, which indicates the period during which it is necessary to remove the goods from the station. After the buyer for took the goods from the station, he makes a so-called blank signature in the consignment note, confirming the arrival of the goods. If damage or defects of the goods were found at the station, it is necessary to indicate and make claims to the carrier [28,30].

The main document in the implementation of international rail transport is a railway consignment note, which performs the functions of a contract of carriage, a commodity document, confirmation of the goods for transportation.

6.4 Road and air transportation of international cargo

Transportation of goods by road has significant advantages: flexibility in the organization of delivery; no binding to cargo terminals, which allows to deliver cargo from "door to door" without overloading; possibility of transportation of small consignments; speed; cargo storage.

The terms of the agreement on the international carriage of goods by road between European states are determined by the Convention on the Contract for the International Carriage of Goods by Road (CCIP or CMR), signed in Geneva on May 19, 1956. It entered into force on July 2, 1961, and is now in force on July 5, 1978.

For the implementation of road transport, a single contract is concluded even in the case of its implementation by several carriers.

Successive carriers have the right to enter into agreements between themselves, but the terms of these agreements should not deviate from the provisions of the single agreement and the said convention. Otherwise, such agreements will be considered invalid, for example, a change in the terms of insurance in favor of the carrier is considered invalid.

The contract of carriage of goods by road is confirmed by a consignment note for the carriage of goods, which certifies the acceptance of the goods by the carrier, but is not considered a negotiable or commodity document. The absence of a consignment note or its defect must not affect the validity of the contract.

If it is necessary to transport a variety or divided into consignments, or transportation is carried out by different vehicles, both the seller and the carrier have the right to require a separate consignment note for each vehicle, each type or consignment. The consignment note for international transportation shall indicate in particular: the place and date of its drawing up; name and address of the sender and carrier; place and date of acceptance of cargo for transportation; the place of its transfer to the recipient; name and address of the recipient; accepted designation of the nature of the cargo and the method of its packaging, and in the case of transportation of dangerous goods - their common designation; number of cargo spaces, their markings and numbers; gross cargo weight or quantity of cargo, expressed in other units of measurement; costs associated with transportation (fare, customs duties, additional and other costs that have occurred since the conclusion of the contract and before delivery of the goods); information required to complete customs and other formalities [30].

Questions for self-control

1. Name the main factors that influence the choice of type of cargo transportation.
2. What is a charter and what types of sea charters do you know?
3. Name the main functions and types of bills of lading.
4. Name the main types of documents that are issued during the implementation of maritime transport.
5. What are the features of rail transport?
6. Name the main documents that must be followed in the implementation of international rail freight.
7. The main advantages and disadvantages of cargo transportation by road and air.

Topic 7. Financial mechanism of international trade operations organization: calculations and modern forms of lending to international trade activity

7.1 International settlements: essence and features.
7.2 The main forms of settlements in international trade transactions.
7.3 Factoring operations: essence and features.
7.4 Advantages for factoring operations.

7.1 International settlements: essence and features

International settlements are the regulatory system of payments for monetary claims and liabilities arising between the subjects of international economic activity based on political, economic, scientific, technical and other relations.

Consequently, *international settlements* - are:

a) commercial payments for monetary claims and liabilities arising between companies, banks, institutions and individuals from different countries related to international trade, international credit, foreign direct investment, etc;

b) noncommercial payments, related to the transport of passengers, insurance, tourism, the transfer of funds abroad etc.

Different *factors* have an influence on the state of international payments:

-economic and political relations between the countries;
-position of the country in the commodity and currency markets;
-the degree of use and effectiveness of government measures to regulate foreign trade;
-the international trade rules and customs;
-the regulation of international flows of goods, services and capital;
-the differences in inflation rates in different countries;
-the state of balance of payments;
-the banking practice;
-the terms of foreign trade contracts and credit agreements;
-the convertibility of currencies, etc.

Traditionally, the mechanism of settlements for foreign trade operations consists of counter-flows - commodity and payment, which arise between sellers and buyers.

Virtually all foreign trade payments are made through banks by crediting liabilities, without paying cash. The settlement operation is that the amounts are transferred from the account of the bank that issued the payment order to the account of the bank executing the order, and then these amounts are credited to the accounts of the firms in whose favor they are transferred.

Settlements on export-import transactions and other commercial agreements are often of a documentary nature, ie are made on the basis of commercial documents, the list and characteristics of which are determined primarily by the terms of foreign trade contracts.

Participants in international settlements are not only directly representatives of the parties to commodity and financial obligations, but also intermediaries represented by banks (commissioners and correspondents) and brokers (currency and banking).

Loro and nostro accounts are used in interbank turnover for international settlements. The loro account is a correspondent account of a foreign bank in the national one.

Accordingly, the nostro account is a correspondent account of a national bank in a foreign one. To meet the needs of their customers in making international payments in foreign currency, banks form currency positions.

Currency position is the ratio of claims and liabilities for a particular currency at a given time.

The features of international payments are:

1. Importers and exporters, their banks enter to the certain separate from foreign trade contract relations relating to shipment, handling of title and payment documents to payment. The volume of obligations and distribution of responsibilities between them depend on the specific form of payment.

2. The international payments are regulated by national normative and legislative acts, international banking rules and customs.

3. The international payments are the subject of unification. It is caused by the process of internationalization of economic relations, the universalization of banking operations. For example, the unification of bill legislation, Uniform rules for documentary credits and collections, Uniform Rules for Contract Guarantees, etc.

4. The international payments have the documentary form usually, that is they are made against financial and commercial documents.

5. The international payments are made in different currencies, and then, firstly, the dynamics of exchange rates influences on their efficiency. Secondly, the normal functioning of international commodity-money relations is possible only if there is the free exchange of national currency for the currency of other countries.

International settlements are bilateral, when they are implemented between two countries or multilateral, when the amounts proceeded from the sale of goods in one country are used for payments to the third countries.The majority of international payments exercised by the procedure of cashless payments, through the banks of different countries, that support mutual correspondent accounts, keep on them monetary assets in corresponding currency and execute payments and other commissions on principles of reciprocity. The procedure is provided by such way: a bank in the country of importer writes off the sum of payment from the account of the client and enrolls it (or equivalent in foreign currency) on the account of foreign bank - the correspondent. The bank in the country of exporter writes off this sum from the account of correspondent and enrolls it on the account of the client that exported the commodity.

Cash payments for international payments are performed mostly in case of traveling of delegations overseas, traveling of tourists or individuals who change their currency in foreign currency in banks.

International payments are connected with the functioning of financial markets because of capital movement in indirect and direct investments.

Large banks play a leading role in the international payments. The degree of their influence on the international payments depends on:

- the scales of external economic connections of basing country;
- the application of national currency of basing country;
- the specialization, financial state, business reputation;
- the networks of banks-correspondents.

The banks use their foreign separations and press relations with foreign banks for realization of payments. Press relations with foreign banks are accompanied by opening of accounts of “loro” (accounts of foreign banks in this bank) and “nostro” (accounts of this bank in foreign banks). Press relations determine the order of settling, size of commission, methods of addition to the spent money [22,48].

The main forms of the international payments in international trade are a commercial letter of credit and acceptance of the documents passed to the bank on encashment.

7.2 The main forms of settlements in international trade transactions.

In foreign countries, there are quite different forms of payment, which is associated with the use of different types of bank and credit means of payment. Cash banknotes are not used in international commercial matters.

The main forms of payments are as follows: collection, letter of credit, open account. The majority of settlements in international trade transactions are carried out in collection and letter of credit forms. However, all these forms of payment are interdependent and interconnected.

Collection of payment, or *collection of commodity documents* (English - collection of payment, French - encaissement; German - Inkasso), provides for the transfer of the exporter's order to his bank to receive from the importer a certain amount of payment against presentation of relevant commodity documents, and also bills, checks and other documents payable. The collection operation takes place in four stages. The exporter, who issues a collection order, submits to his bank a collection order and attached commodity documents. The exporter's bank, which has accepted the collection order, sends it together with the commodity documents to the correspondent bank in the importer's country. After that, the correspondent bank in the country of the importer presents the commodity documents to the importer, which are transferred to the latter against the amount of payment specified in the collection order.

Letter of credit (English - letter of credit; French - lettre de crudit; German - Akkreditiv) is an obligation of the bank to make instructions and at the expense of the buyer importer payment to the exporter in the amount of the value of the goods against the documents presented by the exporter. A *letter of credit* is a document issued by a financial institution, or a similar party, assuring payment to a seller of goods or services provided certain documents have been presented to the bank.

The letter of credit form of payment has certain advantages in comparison with the collection form. For the exporter, they are as follows:

• in the guarantee of payment for the shipped goods by the bank that opened the letter of credit, and in case of a confirmed letter of credit - also by the bank that confirmed it;

• in receipt of payment immediately after delivery of the goods and presentation to the bank of documents certifying this delivery.

The importer, in turn, has a guarantee that the payment will be made in favor of the exporter only after presentation to the latter of the goods documents certifying the shipment of goods.

Encashment - is a bank transaction, by means of that a bank gets monetary resources from a payer (importer). The resources belong to the client. Bank does it on the instructions of the client (exporter) and on the basis of settling documents for the commodity and material values or rendered services shipped to importer and sets off this money on the bank account of client-exporter. This form of payment is considerably widespread, as it is cheaper, comparatively with the letter of credit. The realization of encashment is conditionally divided into three phases [22,33].

The 1 phase. The agreement about terms of encashment. An exporter determines the terms of payment in the suggestion or co-ordinates them with a customer in a contract of a purchase-sale.

The 2 phase. Issue of encashment order and the delivery of documents. The seller ships the ordered goods or directly to the buyer or to the agent upon receipt of the order or after conclusion of the contract for purchase and sale.

Bank - the payee passes the documents with necessary instructions to the collecting bank.

The 3 phase. The presentation of documents to the payer. A collecting bank informs the customer about the receipting of documents, and also about the terms of their receipting. He takes over a custom payment or accepting bill of exchange and passes documents to the customer. The prepaid sum for encashment is translated to bank - the payee that then the bank sets off this amount on the account of exporter.

7.3 Factoring operations: essence and features

Factoring is an intermediary transaction in the implementation of financial settlements between the parties to commercial agreements on the basis of a factoring agreement. The economic content of factoring is the purchase of an intermediary - a factor from the supplier of commercial invoices with their immediate payment to the supplier. The factoring service agreement has a framework character, is the basis for the execution of the exporter's orders of the factor and determines the general conditions of relations between the parties both in terms of the volume of transactions and the mechanism of their implementation. The agreement contains the following conditions: on the transfer of the exporter's claims to the importer on the factor, the procedure for acceptance of specific orders by the factor or their rejection, on the opening of an account for the transfer of funds by the factor. The law of the country where the factor operates will apply to the factoring agreement.

Since the factor assumes financial risk (risk of non-payment of claims by the importer) without the right of recourse, he receives a reward for it. This fee will consist of two parts: the first part - 0.25-2.5% of the total commercial account, the second - the cost of lending to the exporter, the amount of which depends on the level of discount rates and is approximately 6-13%. In order to reduce the risk factor, the total amount of transactions is limited, and the terms of the agreement are determined.

Factoring agreements are divided into open, closed, reversible, irreversible, direct, indirect.

Open factoring is that the importer is notified of the financing agreement, which is based on the assignment of the factor of the right to demand payment from the importer. In practice, notifications are often made on the invoice. The services of obtaining the purchase price in open factoring are provided as follows. Factor undertakes to purchase from the exporter short-term confirmed debts of foreign buyers. When the exporter has exported the goods abroad, the requirements for obtaining the purchase price are transferred to the factor to be paid by the foreign buyer at the request of the exporter. The buyer is informed that the purchase price should not be paid to the exporter. Debts that are payable but are unconfirmed are redeemed by a recourse factor. According to the factoring agreement, the commission is calculated on the basis of total turnover. Under such a contract, the exporter must offer the factor all the debts in the amount specified in the contract. In addition to debt collection, the factor company may perform additional functions to manage the credit operations of the exporter, including control over domestic lending based on the exporter's accounts; sales accounting (management) on the basis of invoices provided by the exporter; payment to the exporter in the calculated average payment term (factoring of the average payment term); financing of the transaction by a factor in addition to the services of obtaining the purchase price and / or credit management. In the latter case, the factor immediately pays the exporter 80% of the cost of delivery on confirmed invoices and at the same time provides credit to a foreign buyer (claims are accepted on a non-current basis).

Closed factoring implies that the factoring agreement between the exporter and the factor is confidential.

Reversible factoring is that the factor has the right of recourse to the exporter if the foreign buyer does not pay the bill. The issue of recourse is determined on the basis of a factoring agreement.

Irreversible factoring assumes that the factor bears all credit risks and is not entitled to compensation in the event of a buyer's failure to meet its obligations. In the case of irreversible factoring, the factor usually has the right to make a claim to the seller when the seller's goods are delivered that do not meet the terms of the contract, or when the exporter violates the terms of the contract and the importer's refusal to pay. The essence of non-current financing is often the transfer of confirmed debt [3,10,26].

In *direct factoring*, there is only one factor - in the country of the exporter, with which an agreement on factoring services. In this case, upon acceptance of the rights to demand the purchase price, the exporter will enter into a contractual relationship with a foreign buyer.

Indirect factoring presupposes the existence of two factors: exports and imports (in the country of the importer). In this case, the importer pays for the requirements of the factor in his country.

7.4 Advantages for factoring operations.

The mechanism of factoring operations has a number of features. The main thing is that the factor does not make a firm commitment to accept all the instructions of the supplier, he can accept or reject the offer for any specific invoice issued in the name of the customer. In order to prevent or limit its own risks, the factor first receives the customer's solvency after receiving a supplier's request sent after signing the commercial case.

Acceptance of the power of attorney means not only consent to its execution and immediate payment upon registration of the assignment of rights, but also a guarantee of payment on the account. The factor may refuse to execute the order when the recovery of the account from the client seems doubtful. However, with the consent of the supplier, he can take over the settlement operation, but subject to the transfer of funds to the supplier only after payment of the bill by the customer and without providing a guarantee of payment. In this case, the transaction takes the form of an ordinary power of attorney.

The advantages that factoring provides to the supplier are as follows:

• immediate receipt of payment after delivery;

• immediate payment by the invoice factor to the payment of the invoice by the customer, which for the supplier converts the term sale into a sale for cash and actual financing by the supplier factor;

• the ability to reduce working capital needs;

• the ability to accept orders from counterparties with loans, without fear of difficulties in receiving payments;

the ability of customers, late payment of their bills or other reasons), and hence disputes in this regard;

• receiving advice from the factor on production and trade, as well as comprehensive performance of works on the sale of goods and services.

Factoring has been used in the United States since the 1950s, and since the early 1960s it has spread to business practices in other developed countries.

Factoring is carried out by specialized firms - factors that are financial corporations that perform a wide range of operations on behalf of the exporter, including the following [10,17]:

• finance export operations - provide del creder, pay an advance to the manufacturer and issue loans to the buyer;

• insure export credits;

• collect payments in the country of the importer;

• facilitate the selection of foreign agents;
• perform operations on acceptance of goods at the port of destination.

Questions for self-control

1. What is factoring?
2. What are the main advantages for factoring compared to conventional lending?
3. What are the main types of international factoring?
4. Describe the main subjects of the factoring agreement.
5. Name the main international agreements governing international factoring operations.
6. The forfeiter bought from the client a batch of 5 bills with a face value of 50 thousand, 75 thousand, 97 thousand, 105 thousand and 125 thousand dollars. Payments on promissory notes are made as follows: for the first three - every 45 days, and for the last two - every 90 days. Thus the forfeiter gives to the client 2 privileged days for calculation. The discount rate on promissory notes is 8% per annum. Calculate the amount of credit.
7. Define the concept of international settlements.
8. What forms of international payments are more profitable for exporters and why?
9. What forms of international payments are more profitable for importers and why?
10. What are the main types of letter of credit form of payment do you know?

Topic 8. Organization of access to foreign markets through trade and intermediary

8.1 The concept and types of trading-intermediary operations.
8.2 Features of concluding agreements with trade intermediaries.
8.3 Features of trading - intermediary firms in modern conditions.

8.1 The concept and types of trading-intermediary operations.

Trading-intermediary operations are the operations related to the sale and purchase of goods that are executed under the order of a manufacturer-exporter by the independent trading intermediary on the basis of their agreement or on the basis of the individual assignment.

The types of trading-intermediary operations are classified depending on the nature of the relationship between the manufacturer-exporter and the trade intermediary, and also they are classified depending on the functions performed by the trade intermediary.

1.The resale operations are carried out by trade intermediary on his own behalf and at his own expense, i.e. the intermediary is the party of the contract with the exporter as well as with the end customer, and becomes the owner of the goods after the payment. There are two kinds of resale operations. The trade intermediary acts as the buyer with respect to the exporter in the first type of resale operations. He gets the goods on the basis of the contract of purchase and sale. Reseller regarding the exporter acts as the buyer who acquires goods under the contract of sale in the operation of the first type. He becomes the owner of goods and has the right to sell them at his discretion on any market and at any price. When the exporter and the intermediary execute their obligations under the contract of sale the relations between them terminate. Such intermediaries are called dealers.

The exporter provides the intermediary, that is called the trader under the contract (or distributor), with the right to sell the exporter's products on a particular territory within the agreed term on the basis of the contract (distribution agreement) - in the second type of operations.Distributor is engaged in sale of the goods on his own behalf and at his own expense. Distributor promotes the product from the exporter to the end user on the particular

territory. Distributor bears all risks connected with damage or loss of the goods, and also with insolvency of buyers.

2.Commission operations are carried out between the commission agent (mediator) and commission principal (committent). The commission principal entrusts the commission agent, but at the expense of the commission principal to make the operation of purchase and sale with the third counterpart. The commission agent gets the payment for the goods supplied. The commission agent is the intermediary only for the commission principal. For the third counterpart the commission agent will be the party of the contract of purchase and sale, namely-the seller if the commission agent has to sell some goods or the buyer if the commission principal entrusts to the commission agent to buy some goods.

3.The consignment operations are one of the types of the commission operations. Their essence is in the supply of the product by the exporter (consignor) to the intermediary (consignee) for the realization on the market within a certain period of time. The consignee makes the payments to the consignor as the goods are selling from the warehouse.

The goods of mass production are sold on the conditions of the consignment, when the exporter is not sure in sustainable and rapid sale of these goods. Such operations are also used when the market is weakly developed or when supplying goods that are not well-known to local buyers.

4.Agency operations envisage, that one party (principal) entrusts to another party (agent) to make actual and legal actions concerning the purchase or sale of goods on the contractual territory at the expense and on the behalf of the principal. Agency operations are carried out on the basis of the agent agreement that is concluded for the definite or indefinite term. The agreement is concluded for the period from one to five years and it provides the opportunity to extend the term for the definite or indefinite period (until one of the parties declares its intention to terminate the agreement).

5.Brokerage operations – these are the setting the contact between seller and buyer through the professional intermediary, called broker in Anglo-American law, a makler – in German law, courtieux – in French law, that facilitates the conclusion of the agreement between the interested clients. Brokers assist in sales and purchase of large quantities of goods (usually exchange and auction goods). But they are no the party of the contract neither as the seller, nor as the buyer. Their task is to find the buyer for the seller and the seller for the buyer and to assist the signing of the contract between them. Thus, the broker is not representative, he is not in contractual relations with either the buyer or the seller, and operates on the basis of individual orders [4,5,10].

8.2 Features of concluding agreements with trade intermediaries

Distribution and agency agreements are the most common types of agreements used in international commercial practice.

These agreements are used in the representation of the sale of goods in tangible (material) form, rather than in the form of services, in the performance of international export and not import operations and do not apply to the implementation of individual agreements by random intermediaries. Agency operations for the provision of services, tourism, advertising by a typical ICC agency agreement are not covered.

The general distribution agreement has the following structure:

1. Name of the agreement. If the agreement provides for the granting of the right of sale to the intermediary distributor, its name may be as follows:

- Distributorship Agreement;
- Distributorship Contract;
- agreement on granting the right to sell;
- international distribution contract (International Distributorship Agreement);
- sales agreement.

2. Parties to the agreement. This clause indicates the company names of the parties, addresses (registered office) and legal status, as well as their subsequent designations in the contract. In a typical ICC contract, they are called a supplier and a distributor (dis, tributor).

In the distribution agreement only general conditions are established, that regulate the relations between the parties concerning the sale of goods on the defined territory. For the execution of this agreement the parties conclude the special contracts of purchase and sale of goods. According to these contracts the intermediary gets the goods of the exporter, and then he must sell them to the final consumer (to third parties) on his own behalf and at his own expense. These contracts include the quantity and quality of the delivered goods, monetary and financial terms of delivery, quality assurance, and procedure for complaints and more.

Terms of purchase and sale between the seller under the contract and the end customer must comply with the terms of the contract between the exporter and the seller.

The territory on which the distributor is entitled to sell exporter's goods is defined in the contract granting rights to sell it. It's called contractual territory and beyond its borders trader under the contract has no right to sell goods without the written permission of the exporter.

The right to sale can be:

-simple, when the exporter has the right to sell the products on the contractual territory independently and through other intermediaries;

-exclusive (monopoly restriction), if the exporter is obliged to sell defined products on the contractual territory only through this distributor. Exporter can also prohibit domestic and foreign buyers to sell defined products on contractual territory;

-exclusive with limitations, when the exporter retains the right to sell the goods on the contractual territory directly to third parties. This is possible in cases when the intermediary has refused to buy goods at prices and on terms proposed by the exporter; if the goods are delivered to the state organizations; if the goods are the parts of the compensation agreement, are the component parts of equipment, machinery supplied by the exporter to another client.

The price terms and the ways of payment of remuneration are determined in the contract granting the right to sell.The responsibilities of a distributor not related to the sale of goods are also defined in the contract:

-trader under the contract cannot represent any other firm that is a competitor to exporter on a contractual territory without the consent of the exporter, and cannot sell products that are competitive for the exporter's goods - it is stated in no competition clause;

- minimum sales volume clause provides the minimum amount by which the middleman has to purchase goods within a specified period, or determines the amount of products broken down by delivery time, or contains an indication that sales must be made in such amounts, by which the exporter's market share is not less than a specified percentage;

-the responsibilities of the distributor in maintenance service include: providing service during the warranty period, carry out repairs after the warranty period, holding a warehouse of spare parts and repair shops, etc.;

-distributor is obliged to provide advertising at his own expense or partly with the exporter;

- mediator informs the exporter about the market position, about goods selling, about his other exporters. He protects the interests of the exporter, agrees not to put exporter's products in worse conditions than the products of the other exporters.

If the mediator is in the country of an exporter, then his responsibilities may include receiving orders from foreign buyers and placing them at the manufacturer on his own behalf and at his own expense. If the mediator is in the importing country, then his responsibilities may include the organization of warehouse, supply of goods from the warehouse to the final consumer, advertising, demonstration of samples in a warehouse and more.

Exporter usually puts at the disposal of the distributor the detailed technical documentation, provides support in solving technical issues arising from the sale of goods under the agreement. In addition, he provides the intermediary with incentives for the creation of spare parts reserve; partially or fully offsets the cost of maintenance, advertising and so on.

As under the agreement the intermediary sells the goods on his own behalf and at his own expense, the exporter does not have any relations with the buyer and the latter can not make claims to the exporter. The distribution agreements are beneficial for both exporters and distributors [51,52,54].

The distribution agreements are interesting to the exporters because they give the chance to exit the new markets and to provide advertising of their goods in these markets throughout several years; the distribution firm has i ts own marketing network or means for its creation; the distribution agreements are accompanied by the purchase and sale contracts on delivery of the goods, they guarantee the receipt of the payment for the goods immediately after the delivery of the goods (if only the goods are not delivered on credit). The distribution agreement excludes the risks of losses from loss or damage of the goods on the territory of another country.

As for the distributors, these contracts are interesting to them, because in comparison with other intermediaries, the distributors have the bigger commercial independence, they independently establish the prices, they often get the monopoly rights of sale of the principal's goods on their territory.

The agreements with the distributors usually are signed for long term (2-5 years) with the subsequent prolongation under the agreement of parties. Such agreements are concluded basically for sale of machine-technical, raw materials and consumer goods.

8.3 Features of trading - intermediary firms in modern conditions

The exporter solves the problem of selection of intermediary firm, when organizing sales through the trade and intermediary link. Choosing the right agent largely determines the degree of effectiveness of the agreement. Next points must be done in the process of selecting agent: it is analyzed the degree of reliability of the company, it shall be considered how conscientiously it relates to their duties, its business reputation, the possibility of maintenance, professional level of engineering services, availability of material and technical base.The choice of intermediary firm is determined by the fact how large is the number of clients served by it, because an exporter prefers to refer to the mediator, for whom he is the sole principal of the sale of such product.

Trade and intermediary firms include the firms that are legally and economically independent of the producers and consumers of goods. They operate for the profit. The profit can be obtained in two ways:

-the difference between the price of purchasing goods from the exporter and the prices at which these products are sold to customers;

- as a reward for services rendered to promote products to foreign markets.

The main activity of trade and intermediary firms is a commercial activity. However, the biggest of them in some cases carry out production activities (processing of sold and purchased goods), transporting, insurance. These features help to implement sales activities.

Trade and intermediary firms depending on the nature of transactions are divided into trading, commission, agency, and brokerage.

Trading firms carry out resale operations at their own expense and on their own behalf. They work mainly with regular suppliers, relations with which are based on long-term basis. Depending on the nature of transactions it is distinguished trading houses, export, import, wholesale, retail firms, distributors, stockists.

Export firms are commercial enterprises that buy goods at their own expense in the domestic market and then resell them on their behalf abroad. They sometimes carry out commission orders, acting as commissioners of foreign companies.

Import firms are the commercial enterprises that buy at their expense the goods abroad, and sell them on the domestic market to the industrial, wholesale and retail dealers. These firms have commodity stocks in the warehouses and can immediately carry out supplies to the domestic market on demand.

The firms specialized in the purchase and sale of a limited number of similar raw materials and food products (tea, coffee, tobacco, sugar, spices, and textile raw materials) occupy the largest part of import firms in industrialized countries. Their function is not only import but also sorting, preparation of the assortment, packaging, packing. Purchase of goods by import firms directly from the foreign exporters is carried out through: commodity exchanges; auctions; constant purchasing offices that are opened by import firms abroad.

Retail companies are the companies that usually perform export and import operations independently. They act by creating their own foreign branches in the form of retail stores and by organizing the offices and agencies for the purchase of goods from small local producers. Large retailers have a wide network of branches, subsidiaries and procurement offices abroad.

Activities of *commission firms* are connected with commission intermediary operations. They perform single consignor orders on their own behalf, but at the expense of the consignor. Depending on the type of transactions and relations with committent it is distinguished export and import commission firm. *Commission firm* is the representative of the seller, it fulfills the orders of the domestic manufacturer-exporter to sale his products in the foreign market. Its responsibilities include timely delivery of goods to the buyer, financing and documenting transactions, implementation of all formalities in the country of the buyer, implementation of warranty maintenance (by agreement of the parties), the organization of products saving in the exporting country or abroad (on behalf of the consignor). Commission remuneration the company receives from the manufacturer-exporter.

Agency firms perform the agency operations and act on behalf and at the expense of the principal. They can enter into agreements on behalf of principal and at his expense or they can be only the mediator at the agreements conclusion. The characteristic features of the agency companies are the long-term representation, close contact with the principal and legal independence from the principal. Most agency firms have the Western European origin. Their branches specialize in import and export of finished products and services of independent suppliers. These firms are the most active on the markets with limited capacity. Agency companies have the stable positions in the Western European export of goods and services in developing countries. Their share in these operations is 10 -20% [6-8,10].

Brokerage firms perform broker operations. These are the intermediary firms that bring together counterparties of the international trade agreements. The brokers cannot act as buyers or sellers of goods that they are commissi oned to sell or buy, under the legislation of some countries. The specialists of brokerage firms are characterized by professionalism, good knowledge of the product, commodity prices, market conditions, sufficient knowledge about the customers' requirements and capabilities of suppliers. These companies maintain strong relations with the banks, sometimes allowing them to finance the deals and to give guarantees on the solvency of customers (del credere).

Questions for self-control

1. Name the main types of trading-intermediary operations.
2. What are the features of the distribution of goods?
3. Joint and distinct agency and distribution operations.
4. What are the main factors influencing the choice of trade agreement type?
5. What are the main types of trading- intermediary firms?

6. What modern mediation forms of can you name? What is the secret of their success in the market?
7. Name the main development directions for modern intermediary operations.

Topic 9. Managerial mechanism for the implementation of international compensation agreements

9.1 The concept, essence, and types of counter trade operations.
9.2 International counter-transactions on a non-currency basis.
9.3 Compensation agreements on a commercial basis.
9.4 Compensation agreements on the basis of agreements on production cooperation.

9.1 The concept, essence, and types of counter trade operations

One of the directions of development of international trade agreements is the intensification of export-import operations, which are supplemented by partners' counter-commitments: the exporter - to purchase certain goods and services from the importer, and the importer - to supply agreed goods and services to the exporter. Such operations are called international counter-operations. Countertrade has become one of the tools for regulating international trade, promoting economic and industrial - technical cooperation between countries, stabilizing and streamlining international settlements.

The regulatory role of countertrade is manifested in the fact that due to bilateral and multilateral intergovernmental agreements on trade, as well as agreements on economic and industrial cooperation on a compensatory basis, it is possible to determine in advance, several years in advance the types and volumes of mutual supplies. calculations, the nature and cost of related or separately provided technical (engineering) services and scientific and technical knowledge and experience (licenses, know-how, etc.).

The specificity of international counter-operations is determined mainly by the peculiarities of trade and political regimes that exist in different countries or groups of countries united in economic groups; the state of balance of payments and trade of specific states; lack or absence of convertible currency in some countries; the existence in most countries of a system of state regulation and control over foreign trade operations, including on the basis of the state monopoly on foreign trade and the state currency monopoly. Countertrade is also affected by inflation in many countries, the instability of the international monetary system and the international settlement system [11,14,53].

An important feature of countertrade is its flexibility, which helps counterparties to adapt to changing conditions in world commodity markets, allows individual countries to purposefully diversify their exports, to enter non-traditional markets. This creates conditions for saving currency, accelerating the process of international exchange of goods and services.

9.2 International counter-transactions on a non-currency basis

Exchange and compensation agreements on a non-currency basis provide for the payment of deliveries in commodity form, when the sale of one or more goods simultaneously agrees with the purchase of another product, and payments in foreign currency are not made. Depending on the nature of deliveries and terms of validity, there are agreements with one-time delivery and agreements with long terms of execution.

There are two types of one-time delivery agreements: barter and direct compensation.

Barter agreements provide for the exchange of the agreed quantity of one product for the agreed quantity of another. Such an agreement either sets the quantities of goods to be mutually supplied or stipulates the amount for which the parties undertake to supply the goods.

In determining the value of goods that are mutually supplied, the assessment is made on the basis of world prices, taking into account the cost of movement of goods. Barter agreements provide, as a rule, almost simultaneous delivery of the quantities of goods specified in the contract of sale concluded between the parties to the agreed destinations.

Direct compensation agreements, like barter, provide for mutual supplies of goods for the same amount without payments in foreign currency. However, unlike a barter agreement, the parties agree on the prices of the goods that are the subject of delivery. In such an agreement, as a rule, there are not two goods, but a significant number of goods offered for exchange. Usually the parties send each other lists of goods: one - with a list of goods that one party would like to receive, indicating their quantity and price, the other - with a list of goods offered as compensation. Unlike barter agreements, direct compensation agreements may provide for a non-convertible cash balance to be spent in the creditor's country. In terms of mutual supplies almost coincide.

Long-term trade agreements are carried out on a non-currency basis at the firm level and are called general (global) agreements. Such agreements are concluded between large multinational companies, on the one hand, and state organizations, ministries, foreign trade organizations of foreign countries, which have the right to enter foreign markets - on the other. Agreements can be signed in the form of general protocols containing lists of mutual supplies, technologies and services. On the basis of common protocols, a series of individual contracts are subsequently concluded. In some global agreements, all trade is defined in general [22,48].

The main advantages of global agreements are:

• exporters represented by TNCs get the opportunity for stable and, as a rule, growing sales of their products in a particular market;

• Instead of a counter-purchase obligation under each agreement, the global agreement defines the categories of goods to be exchanged, their total volume or the exchange value ratio.

Forms of global agreements are basic agreements and trade agreements based on letters of commitment.

9.3 Compensation agreements on a commercial basis.

Compensation agreements on a commercial basis are agreements in which the supply and corresponding counter-delivery of goods are carried out during a certain period on the basis of either a contract of sale or a contract of sale and attached counter-advance or advance purchase agreements. Such agreements have an agreed mechanism of financial settlements, which provides for the presence of commodity and financial flows in each direction. In this case, financial settlements between the parties to the agreements may be made both as a result of foreign currency transfer and through clearing settlements. In practice, the main incentive to conclude most compensation agreements is the desire to avoid the transfer of foreign currency. For this purpose the clearing form of settlements is used, according to which after sending the goods by the exporter its payment claims are entered into the clearing account in the country of the importer, and then are satisfied by means of the corresponding counter delivery.

The contracts of sale used in international compensation agreements do not differ from ordinary contracts of international sale, and the same settlement mechanism is used.

Compensation agreements on a commercial basis are short or medium-term and are divided into three types:

• short-term compensation agreements;

• counter-purchases;

• advance purchases.

Each specific type of agreement is based on a specific contractual form.

9.4 Compensation agreements based on production cooperation agreements.

Compensation agreements based on production cooperation stipulate that the supply of industrial equipment will be paid for by counter-supplies of goods produced with the purchased equipment. Their main types are large-scale long-term compensation agreements with counter-purchases, production sharing agreements, development-import agreements.

Large-scale long-term compensation agreements with counter-purchase of goods provide for deliveries on the basis of production cooperation agreements with long-term loans and credits in the form of complete equipment of production complexes, industrial equipment, technological installations with payment by subsequent compensatory counter-supplies or products, raw materials, finished products or other goods produced at the enterprise built and put into operation [4,6,8].

Projects based on compensation agreements, as a rule, are large-scale (the cost of equipment supplies and counter-deliveries reaches significant sizes), the use of independent contractual and complex financial, payment and organizational mechanisms. Large-scale long-term compensation agreements can be divided into the following:

• agreements in which the obligation to make compensatory purchases exceeds the cost of the equipment supplied;

• agreements in which the obligation to make compensatory purchases is equal to or less than the value of the equipment supplied.

Agreements in which the obligation to make compensatory purchases exceeds the value of the equipment supplied are concluded on the basis of three groups of interdependent contracts: for the supply of equipment and the provision of related technical services; for the supply of final products on the basis of long-term contracts; a banking agreement (or several agreements) under which loans are provided to finance the supply of equipment and technology or government loans under interstate lending, as well as commercial bank loans.

Agreements in which compensatory procurement obligations are equal to or less than the value of the equipment supplied have specific features depending on the industries to which they relate and the products received in the form of compensation for the equipment and technology supplied.

Questions for self-control

1. What is the essence of international compensation agreements?
2. Name the main types of international compensation agreements.
3. What is the difference between barter agreements and compensation agreements on a commercial basis?
4. Advantages and disadvantages of non-currency compensation agreements.
5. In which areas compensation agreements are gaining the most spread?
6. Compensation agreements based on production cooperation.

Topic 10. Organization of offshore operations

10.1 Content, opportunities and directions for tax planning operations.

10.2 Opportunities for inclusion of offshore companies in the international business system of the parent company.

10.3 Types of offshore companies

10.1 Content, opportunities and directions of tax planning operations

Tax planning means the use of various factors (geographical, legal, economic) to reduce tax losses. Tax planning is the choice of the optimal combination of legal forms of relationships and possible options for their interpretation within the current tax legislation. That is, it is a choice between different options for methods of carrying out activities and placement of assets, which is aimed at achieving the lowest level of tax payments.

The tax planning process covers four stages:

I. Resolving the issue of the most advantageous (in terms of tax payments) location (registration) of the organization, its governing bodies, major production and commercial units.

II. The choice of legal form of the organization and its structure taking into account the nature and purpose of its activities.

III. Correct and full use of the possibilities of tax legislation and tax benefits in determining taxable income and calculating tax payments, as well as linking them to the legal forms of transactions.

IV. Rational (from the point of view of taxes) placement of the received profits and other monetary accumulations, use of working capital.

The first group includes the most developed countries: USA, Germany, France, Japan, Great Britain. In countries in this group, the income tax can be 40-60% of the company's net profit.

The activities of economic entities are strictly regulated, there are special legal norms that restrict intra-firm transactions and the use of foreign affiliates to reduce taxation.

The second group includes areas of tax benefits. These are the jurisdictions where, at relatively high income tax rates, a special system of tax benefits is applied to the following:

• activities of certain types of companies (holding, financial, trade);

• mechanism for income transfer and repatriation of profits.

Taxes levied in the countries of this group on the export and repatriation of dividends, bank interest, royalties and some other types of income are significantly reduced. These countries are characterized by liberal currency and customs regimes, which determines the nature of transactions that carried out by subsidiaries (transit of capital and income from it) [22,48].

Examples are Austria, the Netherlands, Ireland, Luxembourg, Liechtenstein, Switzerland (separate cantons).

The third group includes administrative territories and states with the most simplified procedure for registration of legal entities and significantly reduced (or absent) income taxes. They are usually called "tax haven", "tax haven", "tax haven". As a rule, these are dwarf states, former colonial possessions or administrative territories separated from developed countries. Examples are: in Europe - Gibraltar, Fr. Maine, "Channel Islands" - Jersey, Hornsey, Oark (UK), dwarf states - Liechtenstein, Malta, Andorra, Monaco; Among the third world countries - Panama, Costa Rica, Aruba, the Cayman Islands, Bermuda, the Virgin Islands, Liberia, Fr. Mauritius, Nauru and others. The main advantages of organizing the company's activities in these areas include the simplicity and cheapness of registration. Currently, more than 120,000 companies are registered in Panama, and 22,000 in Gibraltar.

10.2 Opportunities for inclusion of offshore companies in the international business system of the parent company.

The term "offshore" first appeared in one of the newspapers published on the east coast of the United States in the late 50s of the twentieth century. It was a financial organization that escaped government control through geographical selectivity. In other words, the company moved its activities, which were subject to control and regulation by the US government, to an area with a favorable tax climate. Thus, the term "offshore" is not a legal concept, but an economic-geographical one.

An offshore company is a company that does not carry out business activities in the country of its registration, and the owners of such companies are non-residents of this country. This is a requirement of those countries where the registration of such companies is allowed, and, as a rule, they have very low or no taxation of offshore companies (only a fixed annual fee).

Motives for criminal use of offshore zones for the purpose committing or concealing tax crimes.

Use of offshore zones to facilitate tax evasion. Offshore jurisdictions offer opportunities for a large number of tax evasion schemes. Consider some offshore schemes used to commit and conceal tax crimes. Most of them use different types of companies, including offshore trusts, offshore banks, offshore insurance companies and other specialized companies. The simplest scheme of offshore operations, which has tax motives, is based on the use of the universal principle of tax legislation, according to which those incomes whose source is located in the territory of the state are subject to mandatory taxation. In cases where the source of income is located abroad or localized insufficiently, it may be excluded from the scope of tax liability in this jurisdiction. This situation arises, for example, in the provision of services in foreign trade, brokerage services, consulting services and more. The income received in this way can go to the accounts of offshore firms [21,44].

Carrying out barter transactions through an offshore firm. The essence of this scheme is that the offshore company is an intermediary between two firms that carry out barter exchange of goods.

In this case, the main income from transactions is formed in the offshore company, therefore, is deducted from taxation in international transactions. In some cases, this is possible when operating within the borders of one country. Debt transactions. Using this scheme, the offshore company buys debt obligations at a discount with their subsequent repayment at face value. The result is that the firm receives income that is exempt from taxation or taxed at a minimum rate.

10.3 Types of offshore companies

The main types of offshore companies are investment, holding, trading, insurance, licensing, as well as real estate management companies, companies providing professional services. Consider them in more detail.

Investment companies. The capital accumulated by investment companies, which are based in offshore territories, can be placed in tax-free bonds or on a bank deposit in offshore banks. The interest is also not taxable. But this is not the only and not the most profitable way to make a profit by investing in international funds [1,2].

As an alternative to an investment company, an offshore investment fund, ie pooled investment capital, should be considered. This can be an open-ended fund that invests in the portfolios of other investment entities, or a specialized fund that invests in one or more activities. The Fund Organizer is not prohibited from using the combined capital accumulated from the sale of shares for loans to third parties, for private investment, as well as for investing in real estate or companies. As a rule, offshore investment funds are registered in the British Virgin Islands, the

Netherlands Antilles, the Cayman Islands, the Bahamas, Bermuda, Hong Kong and Singapore. Every year new countries join them [49,50].

The main advantages of offshore investment funds are:

• tax, as offshore funds usually do not pay capital gains tax and excessive organizational and legal penalties.

In addition, dividends and interest are subject to a reduced tax or exemption from taxes only. This is very important because such taxes and duties actually reduce the return that funds can earn for shareholders, thereby reducing the efficiency of investment;

• minimal regulation. The founder of the fund does not need to present a large number of bank or investment managerial credentials. As a rule, previous business experience is considered sufficient qualification;

• investment flexibility. When choosing investments, offshore funds have more options, which allows them to focus on specific projects or choose areas that offer potentially high incomes, as well as vary the content of portfolios and regulate their assets;

• diversification of risks. Due to the geographical distribution of assets, the offshore fund reduces the degree of risk;

• secrecy.

Questions for self-control

1. What is tax planning and what are the stages of this process?
2. How do countries classify according to the level of tax pressure?
3. What is an offshore company? Where are offshore companies created?
4. Name the main objectives for creating offshore companies.
5. How can manufacturers from different countries include offshore companies in the structure of their business?
6. What types of offshore companies do you know? Describe them.
7. What are the main problems associated with the use of offshore companies for tax planning?

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