# Implementation of Trade Operations and Trade Documentation

- Explanation of the trade operations´ process background

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# Content of the presentation

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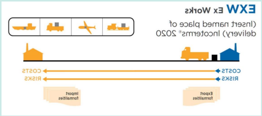
1. The role of the preparation and the plans for entering chosen market
2. Types of business negotiations
3. Business negotiations from the international perspective
4. Explanation of Incoterms
5. Specification of documents types in business relations from the national perspective
6. Specification of documents types in business relations from the international perspective
7. Description of international trade organizations

# Phase of Business Operations

Business operations are content-specific. The various stages and activities of the trade operations are detailed below.

| Phase | National environment | International environment |
|---|---|---|
| 1. **Preparatory phase of business operation**  | The domestic manufacturer, wholesaler or retailer sets out their buying or selling strategy, in which they sets out the goals and the results they want to achieve in exchange. | Importer and exporter determinate their buying or selling strategy. Importer and exporter sets goals, results, which they wants to achieve by buying or selling. In the case of capital inputs into the markets, the conclusion of the contract is also preceded by the stage of deciding on the profitability of entering the interest market based on a set of analyses of the foreign market (Mulačová et al., 2013). |
| 2. **Contract phase of business operation**  | Conclusion of the purchase contract based on previous negotiation between business intermediaries (exclude foreign trade) or business agents (its content, preparation of the contract, negotiation, formulation and activities that allow its subsequent implementation). | The content is the conclusion of the purchase contract based on previous negotiation between importer and exporter, business agents or business intermediaries (its content, preparation of the contract, negotiation, formulation and activities that allow its subsequent implementation). |
| 3. **Implementation phase of business operation** |  The goal is to fulfil the purchase contract, depending on how it was concluded. | |
| 4. **Finalization phase of the business operation** |  The purchase contract must be terminated. Resolve any performance defects. | |

# PREPARATION AND THE PLANS FOR ENTERING CHOSEN MARKET

Trading on foreign markets is carried out on the basis of individual trade operations, which can take various forms of entering the international market. (Mulačová et al., 2013)

- If a company decides to enter the market, either through export or foreign direct investment (FDI), **business preparation and plans** to enter a selected market are a very important stage for a successful business operation.

Foreign market analyses are a process of targeted searching and gathering information about **conditions, trends, opportunities and risks of the monitored market**. While this is a regular agent in the preparation of import and export operations or FDI for large companies with sufficient experience and own specialized analytical-statistical and marketing apparatus, this preparatory part presents a number of problems for small and medium-sized companies. Therefore, it is advisable to use the support of state institutions established by the Ministry of Industry and Trade (see Lecture 2).

The analyses carried out can be broken down from a number of perspectives, according to the methods used, the subjects that commissioned and finances the survey, the macro or microenvironment targeted, by region or country, or by time. However, it is important for the decision-making of an individual potential exporter or FDI implementer in specific business situations to **divide the analyses performed according to their content and focus on specific areas for trading**. (Mulačová et al., 2013)

# The Specific Areas of Survey Focus when Conducting International Business Operations



- Territorial survey
- Commercial -political research
- Competition research
- Survey of product quality and its technical level
- Examination of Payment conditions and instruments
- Consumer survey
- Commodity survey

- Tax survey
- Price survey
- Logistics-Transport survey
- Exploring intercultural differences and social practices

# The Specific Areas of Survey Focus when Conducting International Business Operations

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It is important to carry out analyses in these specific areas for business operations (Svatoš, 2009):

- **Territorial survey** - focuses on the specifics of the area (country) in terms of macroeconomic, political, its trade policy and demography, including the country's creditworthiness (discussed in more detail in the second lecture).
- **Commercial-political research** – is an analysis of information on any autonomous market protection measures in use, tariffs, quotas, documents required and the stage of contractual instruments, including the examination of legal aspects.
- **Commodity survey** - focuses on the analysis of the market situation of a particular commodity, monitoring the development of prices, opportunities and tenders.
- **Competition research** - gathering information about the distribution of forces in the competitive market of the country (current and potential competitors), analysis of trends and further development.
- **Consumer Survey** - focusing on the consumer's purchasing behaviour and looking for factors that affect them, identifies the specific needs and desires. The analysis should identify who its customers (consumer, distributor, retailer) and specify the closer social, economic, age, gender and income characteristics of the market segment. In the case of the industrial market, know its country specificities and business partner profile.
- **Price survey** - has a key impact on pricing and acts as a marketing communication tool.
- **Tax survey** - finds out how the set tax level translates into higher prices of exported products, or how it affects business when opening branches abroad.

# The Specific Areas of Survey Focus when Conducting International Business Operations

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It is important to carry out analyses in these specific areas for business operations (Svatoš, 2009):

- **Examination of payment conditions and instruments, including currency selection for the concluded contract** - is important to reduce insolvency or exchange rate risks.
- **Survey of product quality and its technical level** - prevents problems with the product market and ensures compliance with country regulations in the field of technical standards, sanitary and health regulations.
- **Logistics-Transport Survey** - focuses on identifying transport options, their costs, transport organizations or forwarding services and geographic specific areas.
- **Exploring intercultural differences and social practices** - involves identifying factors whose respect and use can significantly affect the marketability of a product or service. It manifests not only as linguistic, religious or communication differences, but also as differences in approach to business conduct, different meaning of verbal or written agreement, understanding of time, respect for authority, straightforward or tactical negotiation, individual or group decision making and business and private access in a personal meeting (**business negotiations**). Knowledge of national customs and their respect is a prerequisite for long-term business ties.

All information collected will be assessed by the exporter, importer, or FDI implementer either by their own expert team or with the help of external consultants. An important part preceding the final decision should be the elaboration of a risk analysis of the foreign trade operation. (Mulačová et al., 2013)

# SURVEY FOR THE IMPLEMENTATION OF AN INTERNATIONAL BUSINESS OPERATION **- a task to practice**

# The Specification of the plans for entering chosen market

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If, on the basis of previous analyses, the strengths of the FDI implementer, exporter or importer are identified and sufficient opportunities for the target market are in place, then the next stage is necessarily **the planning of entry into the chosen market.** It represents the processing of several **interconnected documents**, which set export goals and the means to achieve them. In particular, they include the following documents (Mulačová et al., 2013):

**Marketing plan**

-The business plan sets out long-term goals and strategic framework, situational analysis of the baseline for customers and product. This plan for this market defines expected business results, market shares and character and size of customer group for which a marketing mix.

-Part of the plan is the budget of marketing activities and control and evaluation of the fulfilment of set goals.

**Logistics and distribution policy design**

-This plan is to think about transport and delivery of products. Within this document it is necessary to prepare draft terms of delivery for negotiations and assess the possibility of using the delivery parity INCOTERMS 2010.

-It is very important for the negotiation with the partner not only to design the exact place of delivery of the goods, but also to define all rights and obligations of both parties (e.g. insurance, customs).

-When drawing up the plan, the advantages and disadvantages of the individual transport sectors as well as the port or traffic conditions of the country should be considered.

-Storage costs can be very high and usually vary greatly within the country, so it is advisable to carefully compare prices.

-It is also important to check whether there are any packaging regulations in the importing country (technical standards, labelling, etc.).

# The Specification of the plans for entering chosen market

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**Plan including the choice of the form of entry to the target foreign market**

- According to the degree of involvement in international operations, place of operation, extent of foreign operations and capital investment intensity we distinguish various forms of entry into foreign markets in the area of trading:

- Export and import operations
- Forms undemanding for capital investment
- Capital inputs of enterprises to foreign markets

(Classification of business methods used in retailing is part of the second lecture)

**Export financial plan (in case of export, in case of FDI it would be financial plan for FDI implementation)**

-This plan describes the current financial status, financial goals and timeframe of their achievement, as well as strategies for achieving these goals.

-The plan presents a realistic estimate of the sources of financing of the export operation and financing requirements.

-The plan should contain the following items:

- Market development costs (visits, communication, promotion)
- Cost of modification of products for export
- Investment costs to increase production capacity to cover exports
- Logistics costs
- Expected cost of export insurance
- Patent protection costs
- Cost of goods certification

# TYPES OF BUSINESS NEGOTIATIONS

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As mentioned earlier, at the stage of preparation of a trade operation, it is important to find out the process of business negotiations in the country to prepare the trader as best as possible for the actual negotiation process.

Millions of international business deals are negotiated worldwide every day carried out by managers, business people, financiers, lawyers, engineers and sales and marketing executives. Many negotiations are carried out in face-to-face meetings. But, in addition, a wide range of alternative communication methods are used (text messaging, phone calls, emails, videoconferencing, virtual negotiation). Some of the factors that lead to success in both **domestic and international business negotiations** are the same, included (Maude, 2014):

- Preparedness of the negotiators
- Negotiating skills of the negotiators
- Quality of information acquired

But in many other ways international business negotiation differs from domestic negotiation and requires a different set of skills and capabilities – for instance, the ability to deal with complexity. The obvious complicating factors in international business negotiations are **language and cultural barriers** (Maude, 2014).

**International business negotiation** can be divided into micro and macro level negotiation (Weiss, 2006):

- **Micro-level negotiation** occurs between individuals, and is often focused on simple buying/selling transactions. Numerous small-scale buying-selling transactions are carried out every day by individuals who are in business for themselves.
- **Macro-level negotiation** takes place between organisations such as two international companies, or between a company and foreign government. Some macro-level negotiations are very large in terms of the values and the number of issues dealt with.

# BUSINESS NEGOTIATIONS FROM THE INTERNATIONAL PERSPECTIVE

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International business negotiation differs from domestic negotiation in many important ways and requires a different set of skills and knowledge. The negotiators need to do more than simply transfer the tactics and techniques they used successfully at home to the international scene. **Cultural empathy and trust - building** skills are also needed. For example, negotiators from some parts of the world tent to distrust foreigners, which causes communication barriers to appear in negotiations. Other complications can include the impact made by **different legal** and **political systems**, as well as by **different negotiating customs** and **protocols**. (Maude, 2014)

**Worldwide examples:**

**Chinese business negotiation culture**

-the international negotiators should take into consideration three key aspects of the Chinese negotiation culture which would normally be critical for effective business negotiation. These are the three main Chinese cultural concepts and relationship management skills of ´guanxi´ (**relationship**), ´mianzí´ (**face**), and ´keqi´(**Chinese courteous and refined behaviour**). (Wang, 2017)

**Russian business negotiation culture**

-for trading with this country there are some specific practices, which states that the **language** of negotiation is Russian, important **personal contact**, business offers to be prepared **in different delivery parities** and in **different currencies**, negotiation of business conditions is sharp, the risk of contracts that it is not possible to influence, it is important to help in the territory from representatives or companies already operating on the market, the background materials must be in Russian language (or in Russian-English version), knowledge of not only **federal but also local legislation**, goods description and instructions in Russian , the **dates** of negotiations **are often delayed**.

**Worldwide examples:**

**Brazil business negotiation culture**

-the official language of Brazil is **Portuguese**, which is clearly preferred in trade negotiations, although some traders have a partial command of **English or Spanish**. Increased emphasis should be placed on the preparation of an interview with a business partner, which may to a certain extent predetermine the success or failure of their own business dealings. It has a very positive effect if at least part of **the promotional documentation is prepared in Portuguese**. If another language needs to be chosen, English is definitely better than the possible use of the Spanish version of the materials. It is advisable to arrive in time for the appointment in advance, although later arrivals of 10 to 15 minutes are usually tolerated. It is customary to address a business partner by **first name**, possibly with a supplement to the position he holds. Business cards are exchanged after the introductory performance. One of the prerequisites for success in the Brazilian market is respect for the fact that Brazilians like to deal with business issues during business **lunch or dinner**, so etiquette also plays a role. With regard to the relatively free working hours, it is recommended to use the interval between **10 am and noon or the afternoon after 3 pm** as the most suitable hour for a business meeting.

**The United States of America business negotiation culture**

-An accompanying feature of American business culture is the pursuit of **simplicity and straightforwardness**, it is better to use short and clear positions in presenting and negotiating without unduly explaining and describing complex contexts. Maintain **direct eye contact** during negotiations to build trust. It is common practice to hold **teleconferences**, often in the presence of three or more people. These negotiations need to be taken as seriously as ordinary personal business meetings, to prepare well for them and to connect with the phone from the Czech Republic at a specified time. At the beginning of negotiations, it should be made clear what the parties are entering into negotiations with and what their **expectations** are.

# BUSINESS NEGOTIATIONS FROM THE INTERNATIONAL PERSPECTIVE
## -Worldwide examples in short

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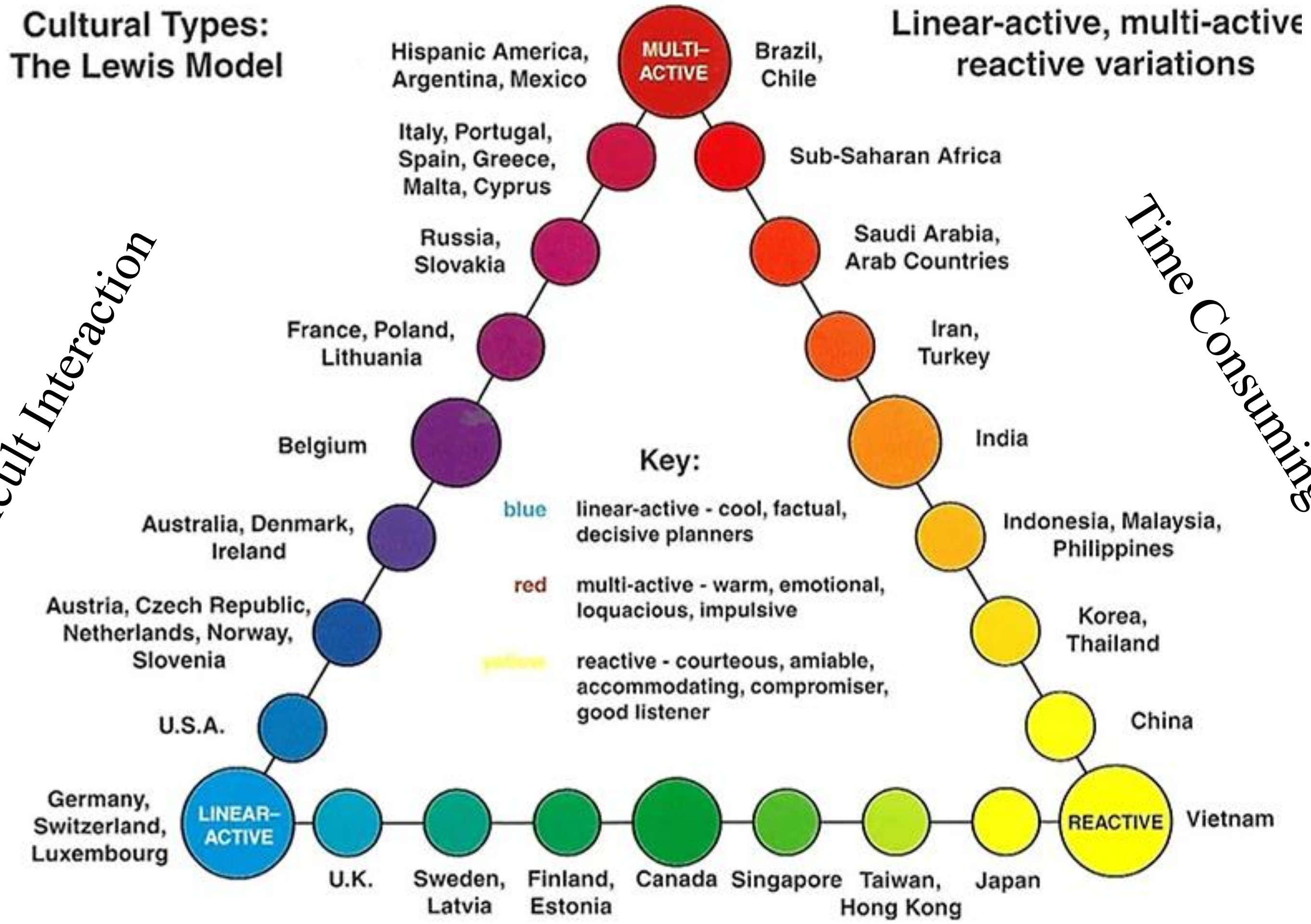
| Country | Perception of negotiation time | Type of clothes | Language of negotiation | Preferred way of communication | Interesting facts in business negotiations |
|---|---|---|---|---|---|
| China | Appointment time preferably between 9-11 a.m. and 14-16 p.m. hours | Suit | Chinese | Personal meeting | The key is in the negotiations the role of a company **owner or CEO**. Inviting to lunch or dinner is a common part of a business meeting. Usually several courses are served. The invited partner is also expected to make a **few toasts**. |
| Russia | There is frequent delays in business negotiations | Business suits | Russian, but the management of large corporations and companies can also speak English | Personal meeting | **Gift exchange, frequent toasts**. Negotiations, which are often complicated by various **bureaucratic constraints**, are usually difficult, requiring patience and purposefulness. |
| Brazil | Appointment time preferably between 10-12 a.m. | Suit and formal shirt with tie | Portuguese. English and Spanish are also possible. | Personal meeting | It is usual to call a business partner by first name. Brazilians like to deal with business issues during business lunch or dinner. **Corruption also occurs**. |
| USA | In case of impersonal contact it is best to plan between 22-24 p.m. (in the case of the Czech Republic) | Conservative | English | Teleconference (Skype, videoconference) | Attendance of a company attorney in a business meeting. They **badly tolerate silence** in the meeting. **Sports issues** are perceived very positive and sporting verbal bargains can also be used (expressions like slam dunk, drop the glove). |
| Czech Republic | Appointment time preferably between 9.00 -11.30 a.m. and 12.30-14.00 p.m. | A conservative yet stylish suit is acceptable. Darker colours tend to be the norm. | Czech, English, other with the help of a professional interpreter | Personal meeting | If invited to a Czech home, it is appropriate to bring a **gift**. Good quality wine or spirits, chocolates and or sweets or something typical from negotiator home country is a good idea. |

# Cultural Types – The Lewis Model




Difficult Interaction

Time Consuming Interaction

Succesful Interaction

# EXAMPLES AND PRACTICAL IMPLICATIONS OF CROSS-CULTURAL DIFFERENCES

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| **WHAT THE BRITISH SAY** | **WHAT THE BRITISH MEAN** | **WHAT FOREIGNERS UNDERSTAND** |
|---|---|---|
| I hear what you say | I disagree and do not want to discuss it further | He accepts my point of view |
| With the greatest respect | You are an idiot | He is listening to me |
| That´s not bad | That´s good | That´s poor |
| That is a very brave proposal | You are insane | He thinks I have courage |
| Quite good | A bit disappointing | Quite good |
| I would suggest | Do it or be prepared to justify yourself | Think about the idea, but do what you like |
| Oh, incidentally/by the way | The primary purpose of our discussion is.. | That is not very important |
| I´ll bear it in mind | I´ve forgotten it already | They will probably do it |
| You must come for dinner | It´s not an invitation, I´m just being polite | I will get an invitation soon |

# PREPARING FOR THE NEGOTIATIONS IN FRANCE

| **Ways to success** | **Ways to failure** |
|---|---|
| Try to get into French discussion regarding a free market and social guarantees | Talk only English |
| Show respect to French culture | Ignore French intellectual experience |
| Be sure that your French guests gets good food and drinks | Curse and drink too much |
| Keep the formal communication till you suggested to address by names | Decreasing importance of French language in a modern world |
| Be logic and consistent while negotiating and keep up with your decision | Refuse a proposal to have lunch or diner together |

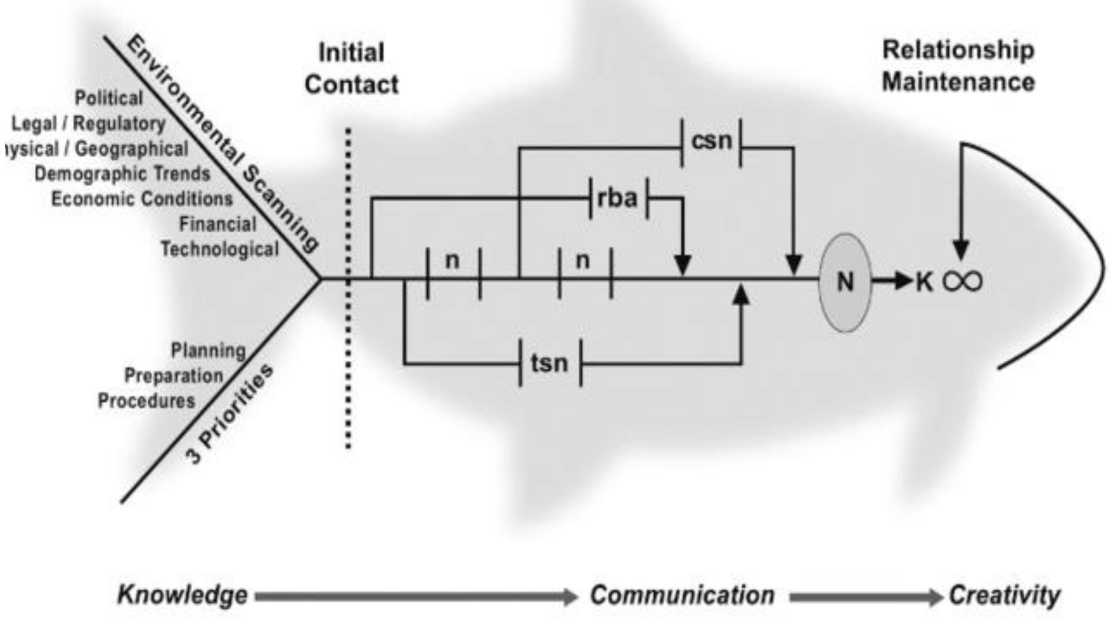
| **Icebreakers** | **Icebergs** |
|---|---|
| Marvellous regions of France | Comparison of unemployment rate in France and EU |
| Food and wine | Old French – English conflict |
| Six Nations rugby Championship | Decision to choose a new world wine instead of French one |

# The Global Negotiation Process

The new rules in international business negotiation were created by Requejo and Graham, 2014 to efficient and creative international commercial negotiations. These rules help to transform international negotiations from traditional competitive and/or problem-solving activities into truly creative and innovative processes and include these simple rules:

1. Accept only creative outcomes
2. Understand cultures
3. Don´t just adjust to cultural differences, exploit them as well
4. Gather intelligence and reconnoitre the terrain
5. Design the information flow
6. Invest in personal relationships
7. Persuade with questions
8. Make no concessions until the end
9. Use techniques of creativity
10. Continue creativity after negotiations

Figure 1: The global negotiation process "The Fish"




Notes:
N = formal negotiations
n = informal negotiation
K = contract/definitive agreement
rba = relationship building activities
tsn = technical side bar negotiations
csn = creative side bar negotiations

*Source:* Requejo and Graham, 2014

# THE GLOBAL NEGOTIATIONS PROCESS

## **-a task to practice**

# The Global Negotiation Process

Considering the potential problems in cross-cultural negotiations, particularly when you mix managers from cultures with distant values and linguistics, it´s a wonder that any international business gets done at all. Obviously the economic imperatives of global trade make much of it happen despite the potential pitfalls. But an appreciation of cultural and other sorts of group differences **can lead to even better international commercial transactions** - not just business deals but inventive and highly profitable business relationships.

# CONTRACTS IN INTERNATIONAL TRADE

# Contracts in International Trade

For the actual conduct of business operations, the legal framework establishes contractual relations that are specific because their entities are from different countries and the legal relations extend across borders. Therefore, there must be **agreement on the choice of law** governing the contractual relationship. (Mulačová et al., 2013)

In addition to contractual relations, certain business practices, representing certain rules that are known and observed in business circles, are respected in trading (Machková, 2010). These can be, for example, practices in ports, trading in certain commodities, or interpreting contracts.

Given that international trade and economic relations are governed by both international and private and public law standards, **international trade law** is defined **as a purposeful set of legal norms from different legal sectors and of different origins that combine their common purpose to regulate legal relations arising in international trade** (Svatoš et al., 2009).

**Contracts used in international trade** include, for example (Machková et al., 2014; Looney, 2018):

- Purchase Contract
- Dealership Agreement
- Other contracts related to purchase contracts (contract for opening a letter of credit, contract for collection, lease contract)
- Contracts of transport
- Intermediary contracts
- Bilateral agreements

# Purchase Contracts in International Trade

The purchase contract is concluded between the seller and the buyer and its content defines **the basic rights and obligations of both parties**. Form, method of closure and differences in legislation may give rise to possible problems and difficulties. For this reason, great attention should be paid to their preparation. When executing a business operation, there is a great risk of ensuring the agreed conditions, in particular the timeliness of delivery, quality and the correct assortment composition on the part of the supplier, but also does not remove the goods or their non-payment. Therefore, payment instruments that are proportionate to the level of risk should also be chosen. Exchange rate risks may also arise. (Mulačova, 2013)

Purchase contracts are concluded in **two stages** (Machková, 2009):

- Submission of the offer - draft purchase contract by the seller, usually in writing, which the buyer accepts (confirmation of the offer)
- Buyer's order and its confirmation by the seller

The purchase contract is a basic contractual relationship whose signature is the culmination of negotiation activities. It is an agreement on **essential attributes** that includes the following particulars (Mulačová, 2013):

- Contracting Parties
- Subject (identification of goods and their quantity, packaging, special requirements, country of origin, EAN marking, etc.)
- Price
- Payment terms and their security
- Delivery time
- **Delivery parity**
- Means of transport

# The delivery clauses (parity)

Purchase contracts in international trade usually include delivery parity, which **expresses the obligations of the contracting parties in connection with the delivery and takeover of goods** (Mulačová et al., 2013). The delivery parity determines the obligations of the seller and the buyer related to the delivery and takeover of the goods, in particular (Machková, 2010):

- **method**, **the place and time of delivery** of goods to the purchaser
- the method, place and time of transfer of **expenses and risks** from the seller to the purchaser
- other obligations of the parties in providing **transportation, loading and unloading of goods, accompanying documents, inspection, insurance, customs clearance**, etc.

The delivery parity significantly influences the amount of the price in foreign trade, because it determines what part of the circulation costs associated with the delivery of goods is paid by the seller and what part the buyer. In general, the longer the delivery term, i.e. the greater part of the circulation costs are paid by the seller, the higher the prices may be.

**Delivery clauses** have arisen in business practice on the basis of business practices, which have often been used inconsistently according to local conditions, thus becoming a brake on the development of international trade. At present, the use of International Interpretation Rules **INCOTERMS** (International Commercial Terms) clearly prevails **worldwide**. Only when trading on the American continent can we exceptionally meet other rules, namely RAFTD (Revised American Foreign Trade Definition). (Machková, 2010)

# Trade Terms



The standard rules of reference for the interpretation of the most commonly used trade terms in international trade are **Incoterms**. The basic purpose of the rules is to define how each Incoterm, as agreed in the sales contract, should be dealt with in terms of delivery, risks and costs, and specify the responsibility of the buyer and seller.

When choosing the appropriate terms of delivery, deciding factors (from the seller´s perspective) include (Grath, 2016):

- **The mode of transport** and the transportation route, the buyer and the nature of the goods
- **Standard practice**, if any, in the buyer´s country or any regulation set by the authorities of that country to benefit their own transport or insurance industry
- **Procedures**, where the seller should avoid terms of delivery, which are dependent on obtaining import licences or clearance of goods to countries they cannot properly judge
- **The competitive situation**, where the buyer often suggests their preferred terms of delivery and the seller has to evaluate these terms in relation to the risks involved.

# EXPLANATION OF INCOTERMS

Delivery parity issues are governed by possible INCOTERMS clauses. These clauses are **not international treaties**, but have been **developed in practice on the basis of commercial practice** to **facilitate the conclusion of contracts and reduce the risk** of disputes and the uncertainty of differing interpretations of the delivery of clauses in different countries during goods handover, transport, unloading, warehousing or customs clearance. (Mulačova, 2013)

INCOTERMS clauses are not an international agreement and do not apply as an international business practice. They shall be binding only **upon the agreement of the Contracting Parties**. Only after this arrangement do they become part of a specific purchase contract and bind both parties. (Svatoš et al., 2009)

A set of international interpretative rules INCOTERMS is prepared and published by the International Chamber of Commerce in Paris (Machková, 2010). International Chamber of Commerce **defined INCOTERMS as**:

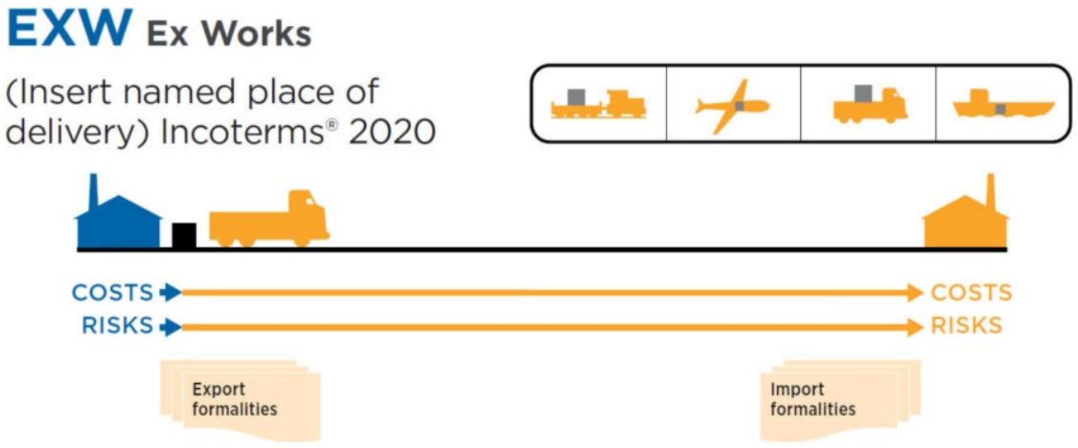
*"ICC's Incoterms® rules are the world's essential terms of trade for the sale of goods. Whether you are filing a purchase order, packaging and labelling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms® rules are there to guide you. The Incoterms® rules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

The 2020 terms are now current, making this the sixth version of these rules. Incoterms rules have been issued since 1936.

# Specification of Trade Types

## E Terms

This type of payment type place the lowest amount of responsibility on the seller. This term is most often used when the buyer will pick up the goods by truck or rail. Therefore, for international shipments, EXW terms are common in Europe where goods frequently move across national boundaries by ground transportation. But unless the buyer requests this term, use of it may show that the seller is not really interested in exporting and is unwilling to accommodate a foreign buyer. (Schaffer et al., 2014)



# Example of E Terms in trade operation

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A buyer in the Netherlands is placing an order with a supplier in Albany, New York. The buyer states that its U.S. subsidiary will pick up the goods at the Albany plant and arrange export. Therefore, the seller will probably quote its price in terms EXW Albany factory. Under this term, the seller need only make the goods available at its factory (or mill, farm, warehouse, or other place of business) and present the buyer with an invoice for payment. The buyer must arrange all transportation and bear all risks and expenses of the journey from that point. The buyer must also clear the goods for export by obtaining export licenses from the U.S. government.

# Specification of Trade Types

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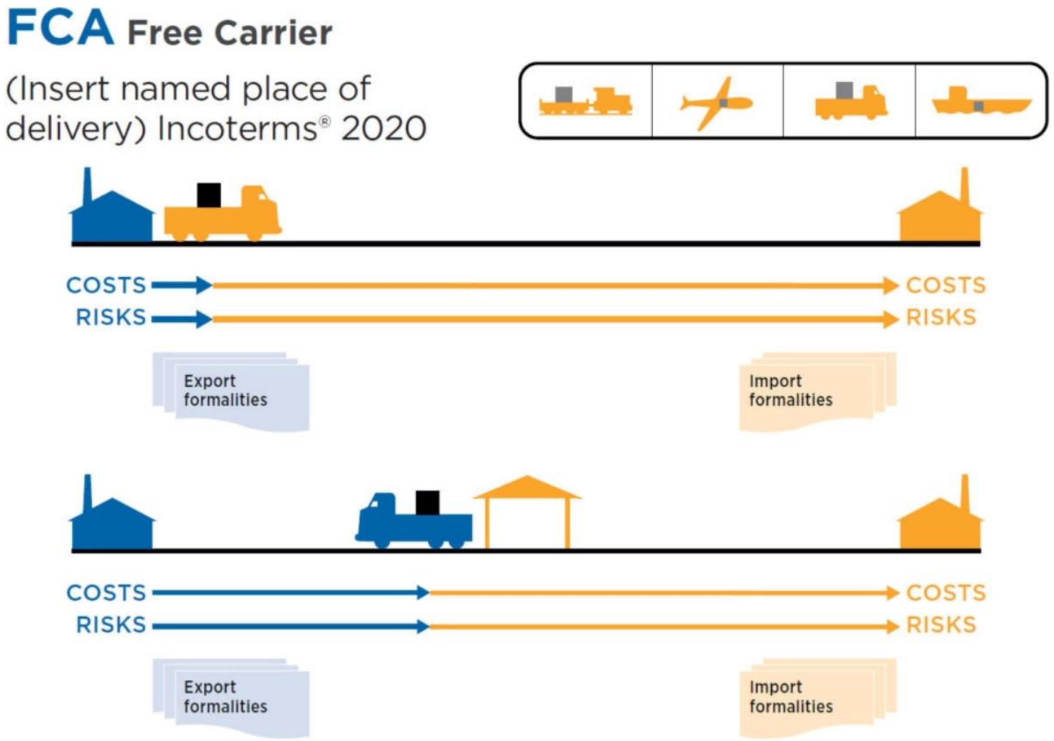
## F Terms

The F terms are shipment contracts. Under F terms, the seller must deliver the goods to the designated point of departure “free” of expense of risk to the buyer. At that point, the risk of loss passes from seller to buyer. The buyer arranges the transportation and pays all freight costs. However, if it is convenient and the parties agree, the seller may pay the freight and add that amount to the invoice price already quoted. (Schaffer et al., 2014)

- F terms are often used when the buyer contracts for a complete shipload of materials or commodities and thus has reason to assume the responsibility for arranging carriage.
- F terms may also be used because the buyer feels that it can obtain better freight rates than the seller.



# Example of F Terms in trade operation



A buyer in the Netherlands wants to arrange its own ocean transportation. The seller in Albany wants to deliver the goods to a carrier near it, for transportation to the Port of New York, making it necessary for different forms of transportation. For instance, the seller might deliver the goods to a barge hauler for a trip down the Hudson, or to a railroad or trucking company. The seller may want to hand over the goods to a multimodal terminal operator nearby and let it handle the goods from there. This inland transportation is already provided by the buyer. In this case it is possible to use CIF (insurance cover) or CFR (without insurance cover) terms.

# Specification of Trade Types

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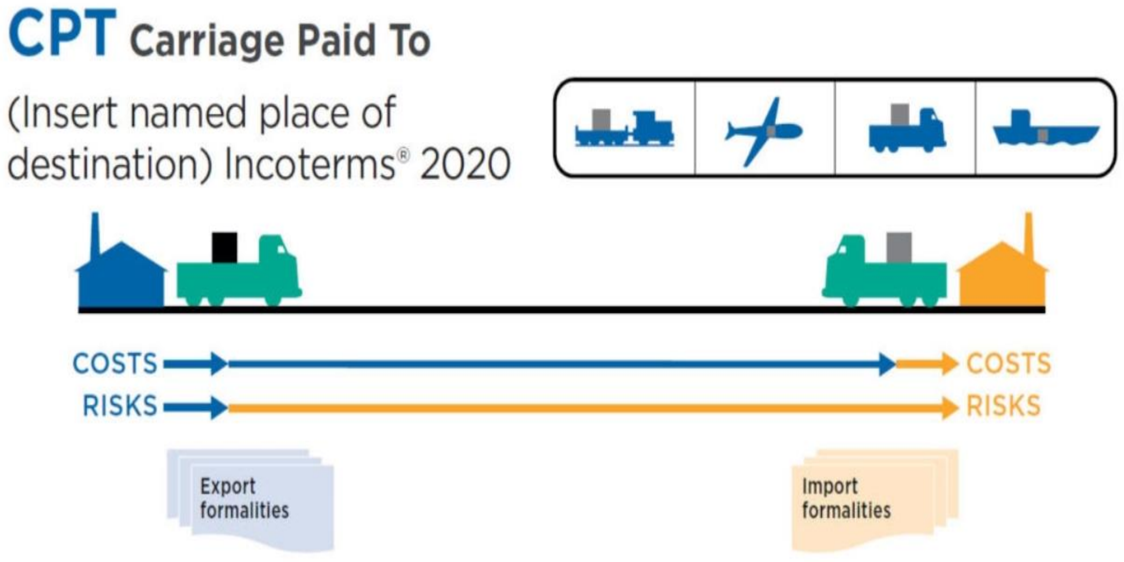
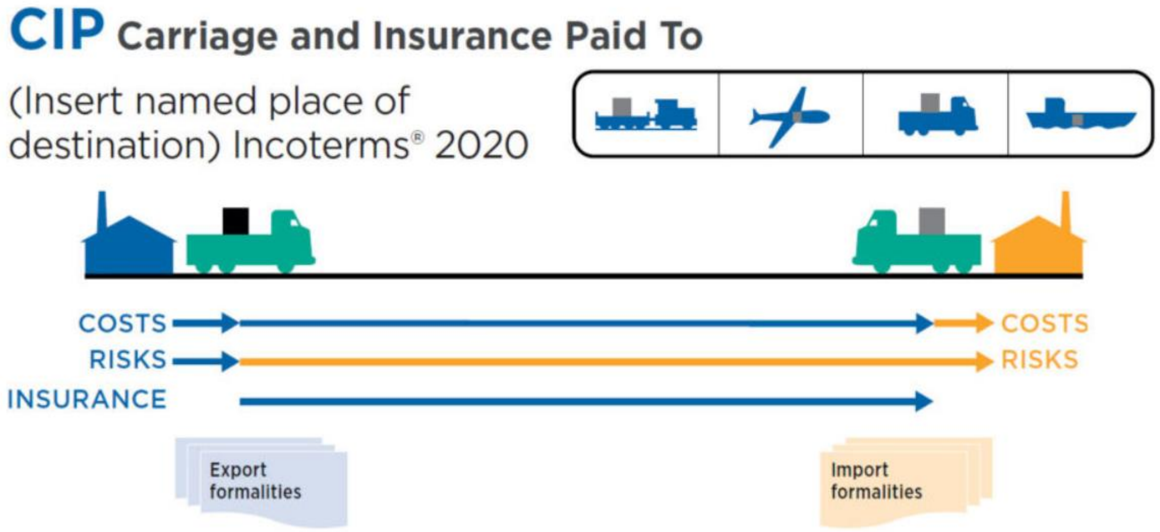
## C Terms

The C terms are also shipment contracts. The letter C indicates that the seller is responsible for certain costs after the delivery of goods to the carrier. However, risk of loss passes to the buyer when the goods are on board the vessel or carrier. (Schaffer et al., 2014)



# Example of C Terms in trade operation



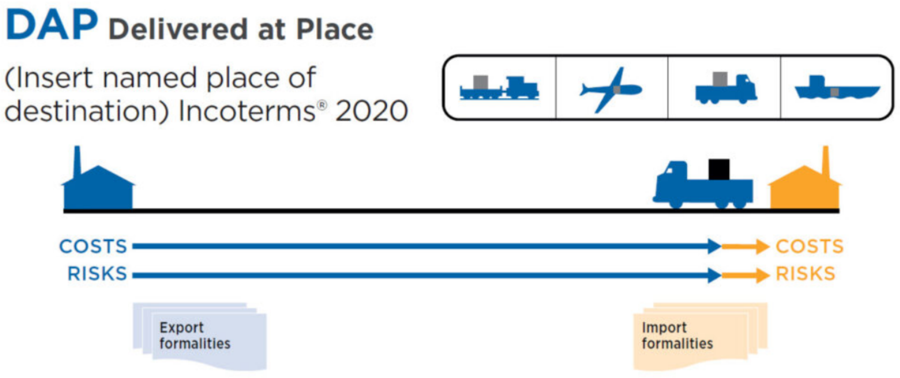
Dutch buyer requests pricing information from Albany. As an experienced exporter, the seller might understand that the buyer has little interest in arranging transportation, let alone coming to pick up the goods. The buyer simply wants the goods delivered to the port of entry in its country closest to its company. If this requires ocean shipment, the seller will prepare a price quotation CFR Port of Rotterdam or CIF (with insurance cover) Port of Rotterdam. For the price quoted, the seller will deliver the goods to an ocean carrier, arrange shipment, prepay the freight charges to the agreed-on port of destination, obtain a clean on-board bill of lading marked freight prepaid, and forward it along with the invoice to the buyer for payment.

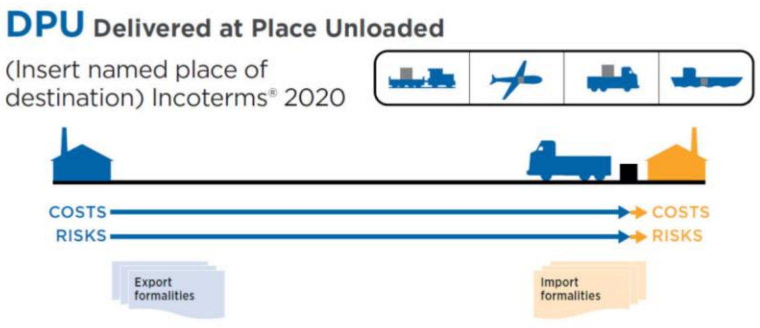
If the seller intends to arrange ocean transportation but will deliver the goods to a road or rail carrier inland waterway, or to a multimodal terminal operator for transit to the seaport, the seller may wish to quote CPT Port of Rotterdam. Here, the risk of loss shifts to the buyer when the goods are delivered to the first carrier. CIP terms are the same as under CPT, with the added requirement that the seller procure insurance to cover the buyer´s risk of loss.

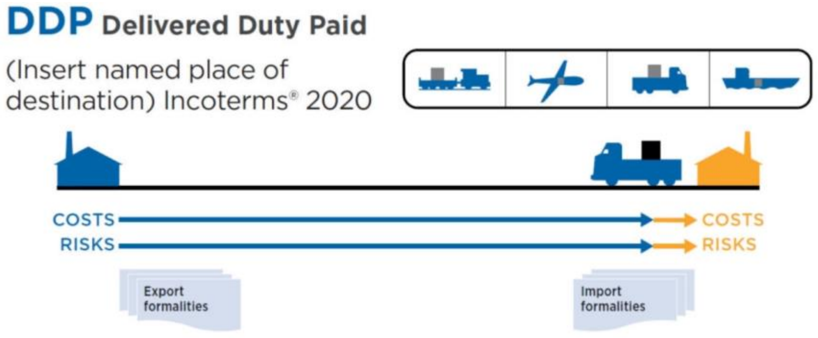
# Specification of Trade Types

## D Terms

Contracts with D terms of sale are destination/arrival contracts. Today, destination contracts are actually becoming more popular due to an increasingly competitive and globalized marketplace. Many manufacturers and other shippers find they must do more and more to win and keep customers. In other words, shippers often have to provide credit terms to their customers by shipping on open account and giving the customer time to pay. Shippers are also being forced to take greater responsibility for getting the goods into the customer´s hands. For these reasons, more and more shippers are quoting prices on D terms than ever before. Still others are quoting prices on C terms to shift the risk of the voyage but voluntarily forgoing the documentary collection and sending the bill of lading directly to the customer for payment on open account.(Schaffer et al., 2014)



# Example of D Terms in trade operation

A seller of Albany is willing to enter into a destination contract, then it must be willing to accept far greater responsibility than under any other terms. For the price stated in the contract, the seller must deliver the goods at the port of destination, and bear the risk of loss throughout the journey. Thus, if the goods are lost in transit, the Dutch buyer would not be entitled to claim the insurance money, although the buyer may have lost profits it was hoping to make on the goods.

The D terms may be used for any mode or modes of transport. If the contract terms are **DAT Rotterdam**, the seller must clear the goods for export and bears all costs and risks associated with their delivery and unloading at the terminal in Rotterdam. The Dutch buyer is responsible for all costs and risks going forward including clearing the goods for import in the Netherlands. The parties´ responsibilities are identical if the contract terms are **DAP Rotterdam** with the exception that the seller is responsible for delivery to the named destination not unloaded, and the buyer is responsible for the costs and risks associated with unloading in addition to clearing the goods through customs.

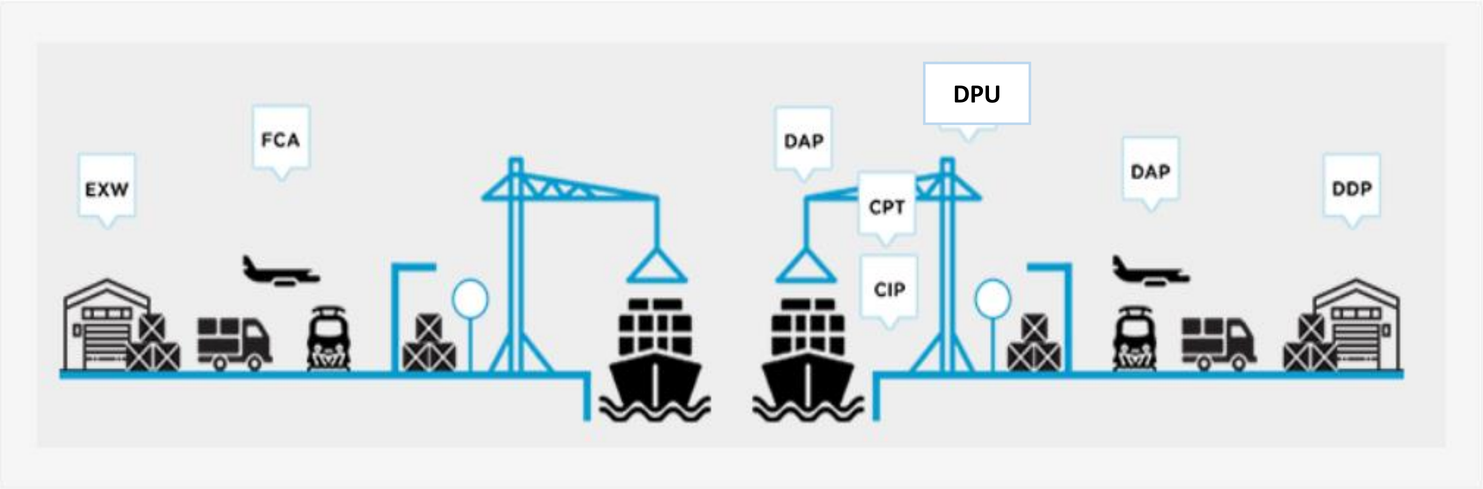
Finally, the seller´s responsibilities are at their maximum if the contract terms are **DDP Rotterdam** in which the seller bears all risks and costs associated with delivery of the goods ready for unloading and cleared for import. Clearly, the seller will not want to take on the responsibility and risks of a DDP shipment unless it is experienced in importing into the Netherlands and familiar with customs regulations and tariff laws there.

# INCOTERMS Rules for Any Mode or Modes of Transport

The following 7 clauses can be used for all types of transport:

- EXW – Ex Works
- FCA – Free Carrier
- CPT – Carriage Paid To
- CIP – Carriage And Insurance Paid To
- DAT – Delivered At Terminal
- DAP – Delivered At Place
- DPP – Delivered Duty Paid

Figure 1: Clauses for all types of transport




*Source:* International Chamber of Commerce

**EXW (Ex Works)**

-means that the seller delivers when it 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 the goods for export, where such clearance is applicable.

# INCOTERMS Rules for Any Mode or Modes of Transport

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**FCA (Free Carrier)**

-means that 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 clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point

**CPT (Carriage Paid To)**

-means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that 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)**

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

# INCOTERMS Rules for Any Mode or Modes of Transport

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**DPU (Delivered at Place Unloaded)**

-The DPU Incoterm represents a new feature of the 2020 Incoterms which has replaced the DAT Incoterm (Delivered at Terminal) established under the 2010 Incoterms.

-the delivery of the goods by the seller to the buyer occurs when the goods are unloaded from the transportation vehicle and put at the disposal of the buyer at the place of destination or at the agreed point within the place of destination, if any.

-It is the only Incoterm “that requires the seller to unload goods at destination. Therefore, the seller bears the risk until it has unloaded the goods at the place of destination.

**DAP (Delivered at Place)**

-means that 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

**DPP (Delivered Duty Paid)**

-means that 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 and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities

# INCOTERMS Rules for Sea and Inland Waterway Transport

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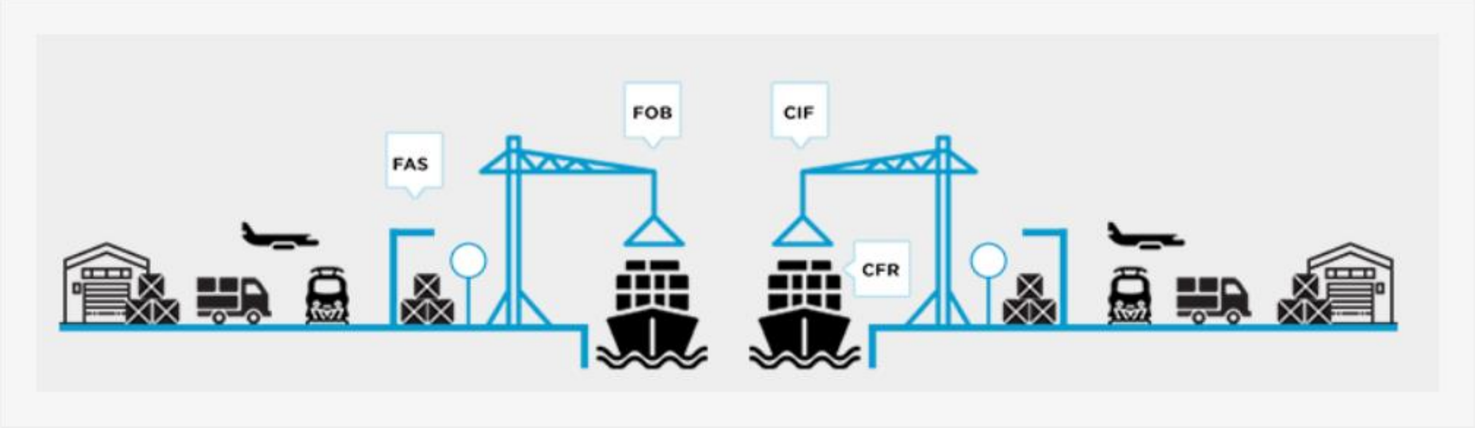
The following 4 clauses can be used for sea and inland waterway transport:

- FAS – Free Alongside Ship
- FOB – Free On Board
- CFR – Cost and Freight
- CIF – Cost, Insurance and Freight

Figure 2: Clauses for sea and inland waterway transport




*Source:* International Chamber of Commerce

**FAS (Free Alongside Ship)**

-means that 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 goods are alongside the ship, and the buyer bears all costs from that moment onwards.

**FOB (Free On Board)**

-means that 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 goods are on board the vessel, and the buyer bears all costs from that moment onwards.

# INCOTERMS Rules for Sea and Inland Waterway Transport

**CIF (Cost, Insurance and Freight)**

-means that 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 goods 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

-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

**CFR (Cost and Freight)**

-in a contract specifying that a sale is CFR, the seller is required to arrange for the carriage of goods by sea to a port of destination and provide the buyer with the documents necessary to obtain them from the carrier

-under CFR, the seller does not have to procure marine insurance against the risk of loss or damage to the cargo during transit

# SPECIFICATION OF DOCUMENTS TYPES IN BUSINESS RELATIONS FROM THE NATIONAL PERSPECTIVE

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The core business unit is a **business transaction**. A commercial activity consists of a series of individual commercial transactions, each of which involves the act of selling and purchasing a particular good or service. The structure of a business transaction is a set of parameters that describe the form of the business transaction, its content and the conditions under which the transaction takes place. The **structure of the business transaction is different**. Factors that characterize the structure of a business transaction are mainly (Janatka, 2012):

- Business transaction **subject**, business transaction **participants**, **distribution path**, **material cost distribution**, *time cost distribution*, way of securing **financial resources** for transaction realization, **risk management**.

Among the documents used in business relations from a national perspective we can include:

- **Demand, offer, order, order confirmation, contract, delivery specification**
- **Invoices** (Belbin, 2015):
    - **Pro-forma invoice** – issued by a business when it does not have credit facilities set up with its customer, and acts as a request for payment for goods prior to despatch. This ensures that payment is received, and is often used when two businesses have not traded before.
    - **Standard invoice** – a standard document issued to confirm a trading transaction. It is normally classed as a sales invoice by the business that has sold the goods, and as a purchase invoice by the buyer. When an invoice is issued by a VAT-registered business, it is known as a VAT invoice. This must provide specific information about the rate and amount of VAT charged.
    - **Credit note** – this is issued to cancel an original invoice or part of an invoice when goods are returned or a pricing error has been made.
- **Packing list**
- **Disposition transport documents** – Delivery note
- **Bill** issued by the supplier to the customer, **bank guarantee** (a type of financial backstop offered by a lending institution)
- **Insurance**

# SPECIFICATION OF DOCUMENTS TYPES IN BUSINESS RELATIONS FROM THE INTERNATIONAL PERSPECTIVE

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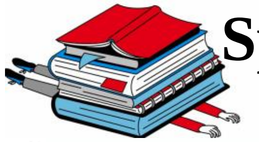
The complexity of individual operations in international trade is also reflected in the number and types of documents used. Their number necessary for execution of one, even very simple transaction usually represents several tens of original documents. Each of them is then made in several copies. (Machková, 2010)

These documents can be divided according to their function into the following groups (Machková, 2010; Singh, 2009):

- **Business documents** (we include here documents that buyers and sellers issue in connection with concluding contracts and their performance - demand, offer, order, order confirmation, contract, delivery specification, commercial invoice, packing list, export and import license)
- **Documents for customs purposes** (content of these documents is proof of origin of goods, declaration of goods according to customs tariff and specification or verification of quantity and value of delivered goods)
- **Transport and storage documents** (some of these documents are used by or are being displayed by forwarders. This includes, in particular, the Freight Forwarder Confirmation by which the Freight Forwarder confirms that he / she has received the shipment, Forwarding Confirmation of dispatch confirming irrevocable dispatch, states the status of the consignment, the method and date of dispatch, the place of dispatch and destination - consignment note, disposition transport documents - bill of lading, storage and issue certificates)
- **Payment and credit documents** (closely related to payment, trade financing and hedging of certain risks, used in relation between banks and their clients, (request for opening of a letter of credit) in relation between business partner (bill issued by the supplier to the customer) and issued by banks Authorized persons (bank guarantee))
- **Insurance documents** (insurance, which the insured proves the insurance claim in case of an insured event)



# Specification of the Export Documents Used in Selected Coutries

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Each country differs in the documents required for export, as shown in the following examples (Singh, 2009):

## Major export document used in India

1. Pro-forma Invoice
2. Commercial Invoice
3. Packing List
4. Shipping Instruction
5. Intimation of Inspection
6. Certificate of Inspection/Quality Control
7. Insurance Declaration
8. Certificate of Insurance
9. Shipping Order
10. Mate´s Receipt
11. Bill of Lading/Combined Transport Document
12. Application for Certificate of Origin
13. Certificate of Origin
14. Bill of Exchange
15. Shipment Advice
16. Letter to the Bank for Collection/Negotiation of Documents
17. ARE Form
18. Shipping Bill/Bill of Export
19. Export Application/Dock Challan/Port Trust Copy of Shipping Bill
20. Receipt for Payment of Port Charges
21. Vehicle Chit
22. Exchange Control Declaration Forms
23. Freight Payment Certificate
24. Insurance Premium Payment Certificate

## Common export documents used in the USA

1. Shipper´s Export Declaration
2. Inspection Certificate of Origin
3. Dock Receipt and Warehouse Receipt
4. Destination Control Statement
5. Letter of Credit
6. Bill of Exchange
7. Bill of Lading
8. Temporary Import Certificate/ATA CARNET
9. Commercial invoice
10. Insurance certificate
11. Export Packing List
12. Import License
13. Consular Invoice
14. Certification

## Major export documents used in Australia

1. Export Booking form
2. Bill of Lading
3. Airway Bill
4. Packing List
5. Certificate of Marine Insurance
6. Export Declaration Form
7. Bills of Exchange
8. Invoices
9. Documentary Letter of Credit
10. Insurance Against Non-Payment
11. Certificate of Origin

# DESCRIPTION OF INTERNATIONAL TRADE ORGANIZATIONS

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Overall, international trade plays an increasingly important role in most national economies in the world and is part of numerous economic models. When producing documents in international trade, the requirement for clarity and comprehensibility of information and easy orientation in the given data is applied. As international trade, procedures in this direction require international coordination. Its structure are monitored by **international organizations** at regular intervals. The most important international organizations operating in the field of international trade include:

- Organisation for Economic Co-operation and Development **(OECD)**
- World Customs Organization **(WCO)**
- United Nations Conference on Trade and Development **(UNCTAD)**
- International Trade Centre **(ITC)**
- United Nations Economic Commission for Europe **(UNECE)**
- Bank for International Settlements **(BIS)**
- International Chamber of Commerce **(ICC)**
- World Bank Group
- International Monetary Fund **(IMF)**
- World Trade Organization **(WTO)**
- United Nations Commission on International Trade Law **(UNCITRAL)**
- International Institute for the Unification of Private Law **(UNIDROIT)**
- Regional Banks (Council for Europe Development Bank – **CEB**, European Bank for Reconstruction and Development – **EBRD**, European Investment Bank – **EIB**, Nordic Investment Bank – **NIB**, African Development Bank – **AFDB**, etc.)
- United Nations Development Program **(UNDP)**
- United Nations Industrial Development Organization **(UNIDO)**
- United Nations Environmental Program **(UNEP)**
- World Intellectual Property Organization **(WIPO)**
- International Telecommunication Union **(ITU)**
- International Maritime Organization **(IMO)**

# INTERNATIONAL TRADE ORGANIZATIONS
## -the task

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# SUMMARY

- The providing of trade operations include these four phases: **preparatory phase of business operation, contract phase of business operation, implementation phase of business operation and finalization phase.**
- When prepare and planning of entering foreign market, is important to carry out analyses, e.g. **territorial survey, commercial-political research, commodity survey, competition research, consumer survey, price survey, tax survey.**
- International business negotiation can be divided into **micro and macro level negotiations**. There are **different negotiating customs and protocols** in the business world.
- The outputs of negotiation can be an individual contracts. Contracts in international trade include many various contracts such as **purchase contract, dealership agreement, contracts of transport, intermediary contracts and bilateral agreements.**
- Purchase contracts in international trade usually include **delivery parity**. The most used delivery parity worldwide are **International Interpretation Rules INCOTERMS**.
- INCOTERMS includes **rules for any mode or modes of transport** and **rules for sea and inland waterway transport.**
- Each country differs in the documents required for export, the most used documents are **pro-forma invoice, commercial invoice, packing list, shipping list, bill of lading, certificate of origin and documentary letter of credit.**
- International trade procedures are coordinated by international organizations such as OECD, WTO, IMF, ITC, IMO, CEB and UNEP.

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