

THE MINISTRY OF EDUCATION AND SCIENCE OF THE RUSSIAN FEDERATION
Federal State Autonomous Educational Institution of Higher Education
Lobachevsky State University of Nizhni Novgorod
National Research University

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International Commercial Operations Organization in Russia

Tutorial

Recommended by the Methodical Commission
of the institute of economics and entrepreneurship for International Students,
studying at the B.Sc. Programme 38.03.01 “Economics” in English

Nizhni Novgorod
2017

МИНИСТЕРСТВО ОБРАЗОВАНИЯ И НАУКИ РОССИЙСКОЙ ФЕДЕРАЦИИ

**Федеральное государственное автономное
образовательное учреждение высшего образования
«Национальный исследовательский Нижегородский государственный
университет им. Н.И. Лобачевского»**

Институт экономики и предпринимательства

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Организация международных коммерческих операций в России

Учебно-методическое пособие

*Рекомендовано методической комиссией института экономики и предпринимательства для
иностраных студентов, обучающихся в ННГУ по направлению подготовки 38.03.01
«Экономика» (бакалавриат) на английском языке*

Нижний Новгород

2017

УДК 339.74 (075.8)
ББК У584.3я7
Б82

Б82 Борисова И.И. Организация международных коммерческих операций в России: учеб.-метод. пособие/И.И.Борисова. – Н. Новгород: Нижегородский госуниверситет, 2017. – 28 с.

Рецензент: к.э.н., доцент Ефимова Л.А..

В настоящем пособии изложены основные вопросы, касающиеся регулирования и техники организации международных коммерческих операций в России в соответствии с учебным планом по направлению подготовки 38.03.01 «Экономика» (бакалавриат)

Учебно-методическое пособие предназначено для студентов факультета иностранных студентов обучающихся по направлению подготовки 38.03.01 «Экономика» (бакалавриат).

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УДК 33М(075.8)
ББК У5я73

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INTERNATIONAL COMMERCIAL OPERATIONS ORGANIZATION IN RUSSIA

Topic 1. International Commercial Activities Organization in Russia

International commercial activities refer to commercial transactions entered into by and between individuals and legal entities of different countries.

In the Russian Federation international commercial activities are represented in various forms of international economic activities of enterprises.

International economic activity of an enterprise (hereinafter IEA) is one of the forms of international business of domestic enterprises.

International economic activity of enterprises is the part of business operations related to international production, scientific and technical cooperation, export and import of products, access of the enterprise to foreign markets.

In accordance with the legislation of the Russian Federation the following types of activities refer to IEA:

1. international trade activity;
2. international investment cooperation;
3. international production cooperation;
4. foreign currency, financial and credit operations;
5. international scientific and technical cooperation.

International trade activity means business activity in the area of international exchange of goods, works, services, results of intellectual activities.

International trade activity may take any of the following forms:

- export;
- import;
- re-export;
- re-import.

International investment cooperation means interaction with foreign partners based on integration of efforts in financial, material and technical areas. International investment cooperation has the following forms:

- international financial leasing;
- enterprises with the participation of international investors.

International production cooperation refers to cooperation in interrelated processes of technological differentiation of labour.

Forms of international production cooperation are as follows:

- concession of licenses entailing payment with the products manufactured under such licenses;
- supply of production lines and plants entailing payment with the products manufactured at such lines and plants;
- joint production on the basis of specialization;
- contractual cooperation.

IEA functions:

1. Facilitation of economic development equalization
2. Commensuration of national and world production articles.
3. Implementation of benefits of international differentiation of labour.

IEA infrastructure includes:

- information and advice structures;
- credit and banking system;
- insurance agencies;
- primary product markets;
- wholesale intermediaries;
- transport and forwarding services.

Topic 2. Organization of International Economic Activity at Enterprise Level

There are several factors which determine the form of organization of international economic service at an enterprise, including as follows:

- motives and needs which give incentive to participation in international differentiation of labour (export, import, participation in international cooperation, etc.);
- internationalization level of production activity (already a participant or only intends to enter into international operations);
- methods of product realization of a company: independent export operations or through intermediaries;
- size of an enterprise and volume of its actual and prospective export which determines quantitative parameters of IEA management service.

Depending on the factors above enterprises implement various forms of IEA organization:

- international economic relations department within the enterprise management structure;
- international trade companies incorporated into large associations;
- through the intermediary of industry-specific international economic associations;
- through the intermediary of incorporating enterprises, specialized international economic joint-stock companies of ministry of trade system;
- through services rendered by international intermediaries.

Where export and other international economic operations take place on a regular basis and there is a determination to their expansion, an enterprise should incorporate a professional IEA service; depending on the scope of functions it may be a department or, for purposes of more large-scale operations, an international trading company.

The most wide-spread form of structural subdivision of an enterprise is an IEA department.

Increase of scope and complexity of international operations leads to transformation of an IEA department into international trade company (ITC). ITC's are incorporated within the framework of large associations with high relative share of export-oriented production, large-scale import procurement activities (feedstock, accessories, equipment) and investment projects.

The *system of IEA economic efficiency indices* can be divided into two groups.

1. *Effect indices* which are defined as absolute values and expressed in relevant monetary units as a difference between the results and the expenses.
2. *Efficiency indices* which are defined on the basis of relation of the results to the results, and as a rule are relative and expressed in relative units: %, rubles/rubles, \$/\$, unit fractions, etc.

Economic efficiency of export

Economic effect index of export of goods, products, works or services is defined as follows:

$$EE_{EX} = A_{MR} + R_R - C_{EX},$$

where EE_{EX} is economic effect index of export in rubles;

A_{MR} is the rouble equivalent of allocations to monetary reserve of the enterprise in RUR;

R_R is rouble receipts of mandatory sale of portion of foreign currency to the state in RUR;

C_{EX} is total exporting costs of the enterprise.

In terms of its economic meaning effect index corresponds to the concept of revenue.

Economic efficiency of export index is calculated as follows:

$$E_{EX} = \frac{A_{MR} + R_R}{C_{EX}},$$

where E_{EX} is economic efficiency index of export, rubles/rubles.

The economic rationale of the efficiency index is in showing what profit will be gained per each rouble of expenses. A necessary condition for export efficiency is that for this index to be greater than one.

Economic efficiency of import

Economic effect of import for internal consumption (use) of the imported goods, that is by the buyer himself, can be calculated as shown below:

$$EE_{IMP} = E_I - PC_{IMP},$$

where EE_{IMP} is index of economic effect of importing products for own use, rubles;

E_I is total costs for purchasing and using products other than imported ones, rubles;

$$E_I = A_{VP} + O_{CT},$$

Where A_{VP} is acquisition value of products, rubles;

O_{CT} is operation costs over the whole service period of products, rubles;

CC_{IMP} is consumption cost of imported goods, rubles

$$CC_{IMP} = A_{VI} + O_{CI},$$

where A_{VI} is acquisition (purchase) value of imported goods, rubles;

O_{CI} is operation costs over the whole service period of imported products, rubles.

The economic rationale of economic effect index is in showing what profit importer will gain if it acquires imported products instead of acquiring products other than imported ones.

Index of economic efficiency of importing products for own use is calculated as follows:

$$E_{IMP} = \frac{C_{IMP}}{CC_{IMP}}.$$

The economic rationale of this index is in showing by how much imported products (goods) are more efficient than products other than imported ones.

Economic efficiency of exporting and importing operations

Integrated index of efficiency of exporting and importing activity of an enterprise over a given period of time is calculated as shown below:

$$E_{EXP.-IMP.} = \frac{EE_{EXP.-IMP.}}{C_{EXP} + C_{IMP}} \cdot 100.$$

where $EE_{EXP.-IMP.}$ is integrated index of efficiency of exporting and importing activity, kopecks/ruble, %;

C_{EXP} is total cost of exporting reduced to a period of time over which economic efficiency is determined, rubles;

C_{IMP} is total cost of importing reduced to a period of time over which economic efficiency is determined, rubles;

The economic rationale of integrated index of efficiency of exporting and importing is in showing how many kopecks of profit an enterprise gains per each ruble of expenses related to exporting and importing operations, and cost efficiency (in percent) of exporting and importing operations upon the whole.

Topic 3.State Regulation of International Commercial Activities in Russia

Mechanism of state regulation of international commercial activity upon the whole and international economic activity of enterprises in particular aims at:

- economic sovereignty protection; ensuring economic security of the Russian Federation;
- stimulation of national economy development upon international trading activities;

- provision of conditions for efficient integration of the Russian Federation economy into world economy.

The state regulation of international economic activity of an enterprise is maintained in pursuance with the following principles:

1. Unity of international economic and national policies.
2. Unity of state regulation system and control over its implementation.
3. Ensuring equality of all the IEA participants.
4. Priority of economic means of state regulations.
5. State protection of rights and legal interests of IEA participants.
6. Avoidance of unreasonable interference in IEA.
7. Differentiation of rights and liabilities of the federation and its constituents in the area of IEA management.

The following crucial issues are within the competence of federal authorities:

- determination of fundamental principles of implementation of IEA and international economic policy of Russia upon the whole;
- development of corresponding federal programs;
- protection of economic interests of the country in the sphere of IEA, its certain constituents and citizens in particular;
- development of crucial instruments of IEA regulation;
- preparation and execution of international treaties and state agreements, control over observation thereof;
- determination and implementation of foreign currency policy of the country;
- formation and use of foreign-currency and gold reserves of the Russian Federation;
- control over procedure of purchase and sale of certain commodity groups (hazardous waste, weapons, etc.);
- development of balance of payments of the Russian Federation.

Constituents of the Russian Federation have the right to:

- carry out IEA within respective borders in accordance with the law;
- control and coordinate activities of IEA participants within the borders of respective borders, develop and implement respective regional programs;
- grant IEA participants with privileges and guarantees in addition to federal ones which are in compliance with the Russian Federation laws;
- execute treaties on international cooperation within the scope of their competence;
- have representatives in trade representation offices of the Russian Federation abroad at the allowance of constituents of the Federation.

Certain issues are within joint competence of the Russian Federation and its constituent entities:

- coordination of actions of IEA participants;
- enforcement of treaties between the Russian Federation and foreign countries (if such treaties concern interests of the regions);
- development and implementation of international and regional IEA programs;
- frontier trade regulation;
- information support of IEA.

Executives governmental bodies involved in regulation of international activity of domestic enterprises include the following agencies:

1. *Ministry for Industry and Trade.*

The Ministry is responsible for support of exporting industrial products, ensuring access to markets of goods and services, exhibition and fair activities. Besides it is entrusted with responsibility to apply non-tariff regulatory measures.

The Ministry framework incorporates several specialized organizations.

2. *Federal Customs Service (FCS)* is the central law-enforcement body in the area of IEA.

The Federal Customs Service (FCS) has the following functions:

- control over crossing of the state border of the Russian Federation by citizens and cargoes, declaration of respective cargoes and possessions;
- participation in amending rates of customs duties and fees;
- participation in formation of the Russian Federation federal budget revenues through collecting customs duties, fees, charges, confiscation of cargoes and financial assets and possessions of citizens;
- protection of economic and other interests of Russia;
- maintenance of customs statistics;
- participation in foreign currency and export control;
- participation in development of customs laws and customs policy;
- ensuring fulfilment of obligations of Russia in the area of customs procedures.

3. *The Central Bank of the Russian Federation* represents interests of the country before banks of other countries, in financial organizations, issues licenses to commercial banks for carrying out financial operations with foreign currency.

As a managerial body in the area of IEA of enterprises the Central Bank manages official foreign-currency and gold reserves of the country, maintains foreign currency control over activities of enterprises.

4. *The Ministry of Finance* is responsible for regulation of credit and monetary affairs, and upon agreement with other agencies introduces to the government suggestions on amendment of rates of import and export customs duties. It governs the taxation system, and in particular determines procedural framework for balance of payments development upon carrying out IEA.

Organizations promoting development of international economic activity of enterprises

• The Chamber of Commerce and Industry is a non-governmental organization responsible for promoting development of international cooperation. Activity of CCI is governed by the Federal Law On Chambers of Commerce and Industry in the Russian Federation (1993).

CCI has the following tasks regarding IEA:

- assistance in development of Russian export;
- rendering assistance to Russian participants of IEA in exploitation of new forms of international cooperation and carrying out trade operations;

- rendering assistance to foreign enterprises in their search for reliable Russian partners;
- improvement of qualification of Russian enterprises in the area of IEA.

The CCI has 18 representative offices abroad and participates in the work of 8 international chambers.

Under the auspices of the CCI work Marine Arbitration Committee, Arbitration Court, International Arbitration Court.

• Industry-specific associations of manufacturers and exporters

In the area of international economic activity they have the following functions:

- coordination of pricing policy;
- protection of common interests at global markets;
- establishment of systems of control over quantity, quality, price of exported goods;
- participation in development of international economic policy concerning principle commodity groups.

Customs Union of EurAsEC (Belarus, Kazakhstan, Russia) is a form of trade and economic integration, which allows for unified customs territory within the borders of which no customs duties or economic restrictions are applied, except for special safeguard, anti-dumping and countervailing measures. At the same time Customs Union member-states apply unified customs tariffs and other regulatory measures when trading with third-party countries.

The Customs Union of EurAsEC was established with the purpose of formation a Unified Customs Territory comprising several states where no customs duties are applied to products realized between such states. Between the Customs Union member-states there is a unified customs tariff and unified requirements to regulation of trade relations with other countries. Implementation of unified standards on the territory of the Customs Union is aimed at protection of its member-states against harmful imported products and also at flattening out any roughness in trading and economic sphere between them.

Legal framework of regulation of international economic activity enterprises includes the following principle documents:

- Customs Code of the Customs Union
- The Federal Law on Customs Regulation in the Russian Federation
- Treaty on the Determination of the Customs Value of Goods Carried Across the Customs Border of the Customs Union (January 25, 2010)
- The Federal Law On Foreign Currency Regulation and Foreign Currency Control (2003 with the latest amendments)
- The Federal Law On Export Control with the latest amendments of 2008)

Topic 4. Customs Regulation and Foreign Currency Control

Customs regulation means actions aimed at protection of economic and political interests of a country. The basis of customs regulation is customs policy.

Customs policy is characterized as purposeful activities implemented by the state to regulate international trading exchange (volume, structure and conditions of export and import) through establishing a respective customs procedure of transfer of goods and means of transportation through the customs border.

The main goal of the customs policy of any state is securing its economic interests.

The customs regulation provides for two types of measures of customs policy implementation, namely free trade and protectionism.

Free trade is aimed at development of free trade between countries. Its purpose is to eliminate various obstacles which could prevent development of international economic relations, satisfaction of needs in certain goods for our country.

Protectionism is in the first place aimed at protection of interests of domestic manufacturers at domestic market of the country. Such measures are characterized by increased customs duties and various restrictions on import of certain types of goods.

The rules of customs regulation are governed by respective federal laws.

With Federal Law No. 114-FZ dated June 2, 2010 Russia ratified Treaty on Customs Code of the Customs Union.

The fundamentals of statutory regulation in the Customs Union are established by Article 1 of the Customs Code of the Customs Union (hereinafter CU CC). According to Article 1 part 2 of CU CC customs regulation within the Customs Union is maintained in accordance with the customs legislation of the Customs Union, and aspects not governed by it are governed by legislation of the CU member-states.

The principle instrument of the customs regulation of the Russian Federation is tariff regulation which means collection of duties from participants of international trade operations depending on what **customs procedures** they choose and with what purpose they transport goods. The general provisions on customs procedures are contained in Customs Code of the Customs Union.

The following types of customs procedures are established for the purpose of customs regulation in relation to goods:

- 1) release for domestic consumption;
- 2) export;
- 3) customs transit;
- 4) customs warehouse;
- 5) processing within the customs territory;
- 6) processing outside the customs territory;
- 7) processing for domestic consumption;
- 8) temporary import (access);
- 9) temporary export;
- 10) re-import;
- 11) re-export;

- 12) duty-free trade;
- 13) destruction;
- 14) abandonment to the state;
- 15) free customs zone;
- 16) free customs zone stock;
- 17) special customs procedure.

The tax assessment base for goods transferred through customs border is customs value.

From July 1, 2010 determination of customs value is governed by Treaty on the Determination of the Customs Value of Goods Carried Across the Customs Border of the Customs Union.

Upon import of goods to the territory of the Customs Union their customs values is determined in accordance with the agreement between member-states. At the same time upon export of goods such value is determined in accordance with the laws of the member-state of the Customs Union.

According to the Treaty, the customs value includes expenses for transportation, unloading, transshipment to the location of arrival of goods to the customs territory of the Customs Union.

Determination of the customs value of goods imported to the customs territory of the Customs Union is carried out using the following methods:

- by price of transaction with imported goods;
- by price of transaction with identical goods;
- by price of transaction with similar goods;
- value deduction;
- value summation;
- fall-back method.

In accordance with the customs legislation the following duties and levies refer to customs charges:

- import customs duty;
- export customs duty;
- value added tax and excise duty charged upon import of goods to customs territory of the Customs Union;
- customs fees.

Payment dates for customs duties and taxes are determined by respective articles within regulation of each customs procedure. In general, upon transition of goods for customs procedures which entail payment of customs duties and taxes, respective date of payment is set to the date of release of goods.

Foreign currency control is state control over compliance with foreign currency legislation upon carrying out currency operations.

Foreign currency regulation system used in the Russian Federation is based on the principles of priority of economic measures in implementation of state policy in the sphere of foreign currency regulation and elimination of unreasonable interference of

state and its agencies in foreign currency operations by residents and non-residents. The following agencies are in charge of currency control in the Russian Federation: the Central Bank of the Russian Federation, the Federal Service of Financial and Budget Supervision. The banks subordinate to the Central Bank of the Russian Federation and customs agencies are agents which exercise the currency control. The main document of currency control is *transaction passport*, a document executed by exporter of the goods being a resident of the Russian Federation in a bank, which contains information on international economic transaction required for exercise of the control, set forth in standardized form.

Export control is a set of measures ensuring implementation of procedure of international economic activity established by the Russian law in relation to goods, information, works, services, results of intellectual activity (respective rights), which may be used upon creation of mass destruction weapons, means of their delivery, other types of weapons and military equipment either upon preparation or/and execution of terrorist attacks.

The Russian Federation is a fully legitimate participant of principle international export control regimes:

Nuclear Suppliers Group and Zangger Committee which exercise control over export of nuclear material, equipment, special non-nuclear materials and respective technologies (founded in 1976 and 1974, respectively);

Missile Technology Control Regime which ensures limitation of proliferation of missile equipment and goods and technologies used upon creation of missile weapons (founded in 1987);

Wassenaar Arrangements which ensure control over export of double-duty goods and technologies and common weapons (founded in 1995).

Topic 5. Contracts in International Economic Activity

The principle form of exporting and importing international economic operations is international trading agreement (contract) which is a business agreement governing relations in the sphere of international exchange of goods, services, information, results of intellectual activities.

International contract means a transaction between two or more parties residing in different countries for supply of a certain amount of product items and/or services in accordance with conditions agreed upon by the parties.

Structure and contents of each contract are individual and depend on peculiarities of the subject of transaction, relations between the parties and governing law.

Standard contract is a sample agreement or a set of unified conditions set forth in writing and formulated in advance with consideration of trading practices or customs and adopted by the contracting parties after they were agreed upon with the requirements of a particular transaction.

International trading contract consists of the following main sections:

3. Preliminary statement (preamble)
4. Subject matter of the contract
5. Quantity
6. Quality
7. Delivery term and date
8. Basis term of delivery
9. Price
10. Payment
11. Package
12. Shipment procedure
13. Acceptance
14. Reclamation
15. Insurance
16. Penalties
17. Guarantees
18. Provisions ensuring execution of the contract and penalties
19. Force-majeure
20. Arbitration
21. Transport provisions
22. Miscellaneous
23. Final statement, language of the contract and correspondence
24. Legal addresses and signatures of the parties
25. Legal addresses and signatures of the parties

Pricing is an important aspect of contractual work.

There are various approaches to international trading pricing:

- price determination on the basis of associated costs of production; this means that export price is determined as a sum of costs of production (these include the cost of feedstock, materials, fuel, amortisation compound of the value of machinery and structures, wages) and average profit;
- ensuring target profit: the price should ensure the desirable percentage for the capital;
- prices can be determined on the basis of current prices, that is based on competitive materials.

The latter approach is the one most widely used in activity of Russian international trading organizations and in international practice.

Topic 6. Currency and Financial Conditions of International Trading Transaction

Currency conditions of international trading transaction are determined upon agreement of the parties and specify the currency of the price and method of its transfer, the payment currency, the rate of exchange to the payment currency, as well as various limitations aimed at protection of interest of the parties against possible currency risks.

The currency of the price of the goods to be sold is called the *price currency*, or *transaction currency*.

Price fixing methods:

- *Fixed price* means the price used for settlement between the parties which is fixed in the contract as of the moment of its signing;
- *price to be fixed* is determined in the course of performance of the contract; in the contract the parties determine the principle of price calculation.
- *sliding-scale price* is the price which at the moment of performance of a commercial contract is subject to revision depending on the costs of production.

$$P_1 = \frac{P_0}{100} \left(a + b \cdot \frac{M_1}{M_0} + c \cdot \frac{S_1}{S_0} \right),$$

where $P(0)$ is contracted basis price which is determined upon signature of the contract;

$M(1/0)$ is weighted average price of the used feedstock, materials upon performance/execution of the contract;

$S(1/0)$ is salary including all kinds of deductions upon execution/performance of the contract;

a, b, c represent percentage ratio of separate elements of the contract price stipulated in the contract: $a + b + c = 1$;

a is the constant component of expenses;

b is the share of expenses for feedstock and materials;

c is the share of expenses for salary.

This method of price fixing is used in contracts for delivery of vessels, large-scale machinery and other goods the manufacturing of which requires a long period of time.

The currency in which the payment will be made is called payment currency, or settlement currency.

Upon the whole currency conditions should ensure effective combination of currency and pricing conditions of an international trading transaction, and therefore the choice of settlement currency should meet the two following requirements:

1. It should allow for achievement of effective price upon choosing settlement currency.

2. It also should eliminate (minimize) possible currency losses.

Determination of price of goods in one currency and payment in a different currency is deemed reasonable since it serves as a kind of insurance against possible losses.

When using different currencies for prices and payments the parties should take into consideration the following aspects:

- Reciprocal currency rates may be different at different markets, therefore it is necessary to determine currency market of exporter, importer or third party whose quotation for currency will be used as a basis for recalculation of price currency to payment currency.
- Currency exchange rate depends on the type of payment instrument with the use of which a payment is made (transfer, invoice, bill).
- Commercial banks have no unified currency exchange rate for selling and purchasing foreign currency, but use exchange rates of sellers and buyers instead. International trading contracts use average exchange rate between the selling and the purchasing rates.
- Currency exchange rates change with time and therefore the date at the quotation of which recalculation will be effected at the payment date is indicated.

Currency risks occur upon performance of export contracts for long delivery periods or upon sale under credit conditions. Risks are objectively caused by change in business climate of global financial markets.

Currency risk means possible losses caused by change in actual value of payment expressed in foreign currency on the account of exchange rate fluctuations.

Special means of insurance against currency risks are currency clauses or protective clauses. They are based on the principle of connection between payments and changes which may occur at currency and product markets. The purpose of currency clauses is in maintenance of contents of payment obligation expressed in certain currency.

Currency clause means a condition included in the text of contract in accordance with which the amount of payment changes in proportion to the change of payment currency exchange rate to the clause currency exchange rate.

Types of currency clauses:

1. Bilateral.

Provide for recalculation of payment amount in accordance with the changes of payment currency exchange rate. Such currency clause allows to equally divide losses and possible benefits between both partners.

2. Unilateral.

Protect interests of one of the parties since they provide for recalculation of payment only in case of increase or only in case of decrease of currency exchange rate.

3. Direct.

Applies when price currency and payment currency coincide, but the product price and the amount of payment depend on changes in currency exchange rate of another, more stable currency.

4. Multi-currency clause.

Recalculation of the payment amount takes place when arithmetic mean exchange rate of a set of several stable currencies to the payment currency changes. This form allows avoiding strict dependence on one of the convertible currencies, but at the same time it is characterized by bulkiness of calculations and is most often replaced with clause on change of the payment amount depending on fluctuation of EUR or SDR exchange rates.

Financial conditions of international trading transaction determine the extent of availability of currency profit for the goods sold, as well as turnover rate included in the international trading transaction.

The choice of financial conditions depends on the following circumstances.

1. Condition of business environment at a particular world product market.

2. Existing international trade rules and practices of purchasing and selling certain goods.

3. Current rules of international currency and financial law and norms of national legislation.

4. Availability of intergovernmental agreements defining currency and financial relations between the parties.

5. Currency and financial state of foreign partner (its business reputation).

Financial conditions of settlement provide for:

- settlement terms;
- settlement forms;
- payment instruments;
- measures providing for financial liability of the parties for failure to fulfil contract terms.

Settlement terms determine at what stage of movement of the sold products payment is to be made and how it is to be made (for instance, lump sum or by instalments).

In international trading practice settlements under terms of cash payment or credit are used.

At present in international practice these two methods of settlement are usually combined at the ratio of 20% cash to 80% credit.

Traditional settlement forms include:

- documentary letter of credit;
- documentary collection;
- bank transfer;
- open account.

Documentary letter of credit means obligation of a bank to effect at the buyer's instruction and at its expense payment in favour of the seller against negotiable instruments of title presented by the seller.

Depending on the nature of the bank's responsibility there are several types of letters of credit.

1. *Revocable (refund) letter of credit* may be cancelled or changed ahead of time at the instruction of ordering customer or at the initiative of issuing bank without advance notification of beneficiary (exporter).

2. *Irrevocable letter of credit* contains fixed obligation of the bank to the exporter which excludes early cancellation or change without consent of the exporter.

3. *Irrevocable confirmed letter of credit* increases security of payment as responsibility of the issuing bank is supplemented with guarantee of another bank which assumes liability for the payment along with the issuing bank.

As a rule, correspondent banks act as confirming banks.

4. *Transferable letter of credit*. With this type of letter of credit exporter transfers its right for the payment in full or in part to third parties (second beneficiaries).

Transfer of rights is required upon financing of sub-suppliers from the credit funds.

5. *Revolving (recurrent) letter of credit* is used upon regular long-term export supplies. The amount of letter of credit is automatically credited within the fixed limit and validity of letter of credit.

When carrying out operations with letters of credit the bank deals only with documents, not with products or services. Since settlements are made against documents, this settlement procedure is called documentary letter of credit, and in international settlements it is regulated by Uniform Customs and Practice for Documentary Credits developed by International Chamber of Commerce.

Documentary collection is instruction of the exporter (creditor) to its bank to obtain from the importer (payer) a certain amount of money.

In case of documentary remittance payment is made against certain documents (in most cases, bills of lading). The parties of this operation include the seller, the buyer, the seller's bank and the buyer's bank.

Upon collection of documents and receipt of payment or accept banks follow Uniform Rules for Collections developed by International Chamber of Commerce.

Documenter collection is most often used at the market of engineering products.

Open account settlements allow for the exporter to provide the importer with negotiable instruments of title bypassing bank and payment by the importer of amounts due to the open account within the period of time set as agreed between the parties.

As a rule, settlements using open account are applied with delivery by consignments and payment at the end of the period.

Bank transfer means transfer of a payment order from one bank to another via telecommunication or mail. A payment order is an order by one bank addressed to its correspondent bank concerning payment of a certain amount of money to beneficiary, bearer of a bill or other payment documents.

When settlement is effected in form of a bank transfer one of the parties under the contract always bears the risk. In particular, the exporter bears the risk of non-payment of the supplied goods when payments are effected by transfer after delivery of goods, and the importer bears the risk of non-delivery of goods after they were preliminary paid for when contracts provide for advance payments.

Therefore the use of bank transfers in settlements of delivery of goods is quite limited.

Topic 7. Basis Terms of International Trading Transactions

When executing an international trading contract parties should clearly divide between themselves multiple duties related to delivery of goods from the seller to the buyer. For the purpose of unification of obligations of the seller and the buyer concerning delivery of goods and ensuring consistency of their interpretation by the parties from different countries, International Chamber of Commerce (ICC) develops Incoterms, Rules of Interpretation of International Commercial Terms, which define the essence of the most commonly practised terms of delivery. The first edition of the document was prepared by ICC in 1936. The latest edition was issued in 2010 (Incoterms 2010). In terms of law this document is for optional use.

Each Incoterms 2010 term represents an abbreviation of three Latin letters and contains structured allocation of responsibilities between the seller and the buyer.

According to Incoterms, the basis terms of delivery in agreements of purchase and sale define the following:

- allocation of expenses between the seller and the buyer; accordingly, contractual price of goods depends on the basis of delivery chosen by the parties;
- obligations on preparation and transfer of documents;
- the moment of transfer of risk and responsibility for delivery.

Under all basis terms the seller has the following obligations:

- deliver goods in accordance with the terms of the contract to the designated destination;
- in duly time inform the buyer on readiness of the goods for shipment;
- pay expenses related to check of the goods;
- at its own expense provide standard package for the goods;
- at its own expense acquire export license or other permit for export;
- pay customs duties charged upon exporting.

Under all basis terms the buyer has the following obligations:

- accept the goods at the location and within the period of time stipulated in the contract and pay its value;
- incur all expenses and risks from delivery date expiry related to untimely acceptance of goods;
- pay all expenses for imported goods unless otherwise stipulated in the terms;
- at its own expense ensure acquisition of the license.

The basis terms thus determine the party which incurs expenses related to transportation of goods from seller the exporter to buyer the importer. Such expenses may vary and at times reach 40% to 50% of the goods price.

All terms proposed by INCOTERMS are divided into four categories from the case when the seller provides the goods to the buyer directly at its facilities and to delivery term under which the seller incurs all expenses and bears all risks until the goods are delivered to the country of destination (possibly even to the buyer's storage location).

INCOTERMS 2010 basis delivery terms classification

Category E Shipment	EXW	general transport	EX Works (... named place) Risks transfer: At the moment of pick-up of goods at the seller's premises Export customs clearing: Responsibility of a buyer Import customs clearing: Responsibility of a buyer
Category F The principle delivery is not paid for by the seller	FCA	general transport	Free Carrier (...named place) Risks transfer: At the moment of handover to carrier at the seller's premises Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer
	FAS	Sea and inland waterway transport	Free Alongside Ship (... named port of shipment) Risks transfer: When the goods are place alongside the vessel Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer
	FOB	Sea and inland waterway transport	Free On Board (... named port of shipment) Risks transfer: When the goods are actually on the board of the vessel Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer

Category C The principle delivery is paid for by the seller	CFR	Sea and inland waterway transport	Cost and Freight (... named port of destination) Risks transfer: When the goods are actually on the board of the vessel Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer
	CIF	Sea and inland waterway transport	Cost, Insurance and Freight (... named port of destination) Risks transfer: When the goods are actually on the board of the vessel Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer
	CIP	general transport	Carriage and Insurance Paid To (... named place of destination) Risks transfer: When the goods are delivered/handed over to the first carrier Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer
	CPT	general transport	Carriage Paid To (... named place of destination) Risks transfer: When the goods are delivered/handed over to the first carrier Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer
Category D Delivery	DAT	general transport	Delivered At Terminal (... named terminal of destination) Risks transfer: When the goods are delivered to the destination port Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer
	DAP	general transport	Delivered At Point (... named point of destination) Risks transfer: When the goods are delivered to the place named by the buyer Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a buyer
	DDP	general transport	Delivered Duty Paid (... named place of destination) Risks transfer: When the goods are handed over to the buyer's responsibility Export customs clearing: Responsibility of a seller Import customs clearing: Responsibility of a seller

Topic 8. Credit Financing in International Economic Activity

Credit means provision of loan in monetary or commodity form under condition of interest-bearing reimbursement.

There are several forms of crediting of exporting and importing transactions which are classified by the following features.

Criterion of classification	Form of credit
Relation of the parties in the process of crediting	- commercial - - bank - - state
Crediting period	- short-term (less than 1 year) - medium-term (1 to 3 years) - long-term (3 years and more)
Crediting method	- Advance - Adjournment - Instalment payment plan
Cover method	- Private - Complete
Repayment method	- Paper - Acceptance
Purpose	- Completion of export - Storage - Warehousing
Implementation conditions	- Cash - Acceptance
Security method	- Covered - Uncovered
Traditional	- Commercial - Bank - Commodity
Non-traditional	- Factoring - Forfaiting
Form of extension from exporter to importer	- Bill of exchange - Current account credit - Acceptance - Reimbursement
Form of extension from importer to exporter	- Deposit - Customer advance payment - Advance on goods

Forms of crediting importers

Company credits

Company crediting of importers is carried out in a form of bill of exchange credit or current account credit.

In case of bill of exchange crediting an importer gives protection to the bill issued by exporter; in other words it confirms payment of the bill of exchange to the full and within the stipulated period of time against commodity documents sent for collection and transferred to it by the bank.

Acceptance means agreement to pay commodity, financial documents or the goods.

Bank crediting of importer is effected in form of accounting of bills of exchange, loans against a pledge of purchased goods.

Acceptance and reimbursement credits are a specific form of bank crediting of importers.

Acceptance credit is a credit extended in a form of bill of acceptance or agreement of the importing bank for payment of the exporter's bill. Thereupon prior

to payment due date an importer deposits to the bank the debt amount, and the bank discharges its obligation before an exporter in due time.

Acceptance credits are extended by large banks to both domestic and foreign exporters. Acceptance credit is secured by goods, and by accepting the bill the bank agrees to pay in due time without investing any of its own funds.

Reimbursement credit refers to acceptance of the bill by the bank under condition of receipt of guarantee from a foreign bank which is servicing the importer. In this case prior to the bill expiry date the importer is obliged to deposit funds to its bank which transfers (reimburses) such funds to foreign bank which gave protection to bill, and the foreign bank pays it to exporter within the designated period of time.

Forms of crediting exporters

- Bank;
- Commercial.

Commercial crediting of exporter is effected in form of customer advance payments on the part of importer in case a purchase order is for complex expensive equipment which takes a long time to manufacture. Such advance payment dispenses the exporter with the necessity to resort to bank credit. In this case reduction of price within the limit of credit expenses by exporter is negotiable. Advance payment is 30% to 50% of the cost of goods.

Along with advance payments deposits are used.

Deposit is a method of securing redemption of commodity documents. The difference between advance payment and deposit is that customer advance payment is refundable while deposit is not.

Deposits are used when credit companies of importers interact with intermediaries which resell products purchased from minor manufacturers.

Bank credits are extended to exporters both by national and foreign banks in form of accounting of bills acquired from importers, as well as of advance on goods. Advances on goods accompany all stages of commodity supplies: manufacturing, transportation, etc. Such loans are secured by commodity documents, and exporter settles its indebtedness to the bank as it receives payment from the buyer.

Non-traditional forms of crediting exporters

Non-traditional forms of crediting exporters refer to *factoring and forfaiting*.

Factoring is a new type of financial services intended for support of small and medium businesses. Factoring can also be quite beneficial for large exporting companies with well-established clientele, significant deferral of payments and insufficient cash balance. Factoring is a kind of transaction when a third-party company called a factor buys from its clients their accounts receivable and within 2 or 3 days pays those 70% to 90% of accounts receivable in form of advance payment, and the remaining 10% to 30% the client receives after it receives invoice from its partner.

Such form of financing is used to reassign unpaid payments to factoring company.

Commission charges of a factoring company consist of service fee and financing fee. Service fee is charged in % (1–3.5%) of turnover which depends on the range of services provided by factoring company. Financing fee depends on the value of credit resources used for advance payments.

Advantages of factoring:

- a) release from risk of non-payment;
- b) anticipating realization of active debt portfolio;
- c) simplification of balance structure;
- d) reduction of accounts receivable collection (in average by 15% to 20%);
- e) saving on accounting, administering or other expenses.

Factoring is a kind of short-term crediting of export, and factoring company purchases exporter's requisition to foreign buyers with the payment period of 30 to 120 days.

Forfaiting is a kind of medium-term crediting of exporter. Forfaiting is used upon supply of machinery and equipment for large amounts with long-terms deferral of payment (up to 5 years).

Forfaiting is crediting of exporter by bank or financial company through purchasing of bills of exchange without turnover to seller and other debt requisitions on international trade transactions.

All risks of exporter are transferred to forfaiter which needs to protect its interests through acquiring guarantee or surety for a bill (guarantee of a bill) from a first-class bank of the country of importer. In order for a bill of exchange to be regarded as forfaiting securities the following 2 requirements should be met:

- a bill of exchange should be signed by a world-famous bank;
- payment obligation of an importer should not be related to supply of goods.

The cost of forfaiting services includes:

- debtor risk insurance expenses;
- expenses for insurance against political risks and money transfer risks;
- expenses for employment of funds to cover risk in case of change of interest rates;
- commission fee for operations during preparatory period.

Upon the whole the cost of forfaiting exceeds the cost of other forms of crediting. Unlike factoring, forfaiting is a one-time only operation as it is related to collection of monetary funds under only one document (reassignment of guarantee of a bill).

The main international organization engaged in regulation of relations under factoring and forfaiting operations at the world market is International Factoring Association (IFA) (1969, Amsterdam, 270 billion USD, 50% of international factoring business).

Test questions

1. Types and forms of International economic activity (IEA)
2. Objectives and principles of state regulation International economic activity.
3. The competence of the federal authorities in the regulation of IEA..
4. Characteristic of non-governmental organizations promoting.
5. Role in the regulation of the Customs Code in International economic activity.
6. Types of customs procedures.
7. Characteristic of customs procedure of release for domestic consumption.
8. Procedure for determining the country of origin.
9. Export control objectives and the need for its implementation.
10. Taxes applied when importing goods.
11. Currency control in foreign trade.
12. Types of customs payments .
13. The technique of using customs tariff.
14. Federal Law "On Customs Regulation in the Russian Federation": the concept of characteristic.
15. Currency conditions international trade transaction.
16. Ways to fix prices in the foreign contract, the need to determine the exchange rates of currency translation in the currency of payment.
17. Financial terms of international trade transaction. Documentary letter of credit: the concept and forms.
18. Documentary collection.
19. Forms of credit used in about foreign trade.
20. Forfeiting, its role in financing international trade transactions.
21. Factoring, its role in financing international trade transactions.
22. Country of Origin and system of preferences .
23. Methods of determining the customs value.
24. International Commercial Terms (Incoterms).
25. Classification of the basic conditions of supply.
26. Types of contracts used in foreign trade.

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1. International economic activity / edited Strovsky L.E. –M., 2007.
2. Pokrovskay V.V. International economic activity . – M., 2009.
3. Rostovskiy Y.M. International Business – M., 2008.
4. Gerchikova I.N. International commercial business. – M., 2001.
5. Economics and organization of foreign trade transportation / edited Kholopov K.V. – M.: 2000.
6. Mikhailov D.M. International contracts and settlements. – M., 2006.

Internet resources

1. www.customs.ru – Federal Customs Service

2. www.wto.org – The World Trade Organization.
3. stat.wto.org/CountryProfile – statistics WTO
4. www.tamognia.ru – information portal

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