Price Categories Used in International Trade

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Abstract

In the current world economy conditions, development of any state can not be based solely on internal sources and the national economy results.

Increased volume and diversification of cross-border transactions in goods and services, the dynamics of international capital flows, and the fast spread of technology, gives multiple values of foreign trade leading to growth of economic interlinks across the world countries. Through the foreign trade activity is carried out exchange of goods and services on the international market and ensure the participation of states in international economic cooperation.

In today's global world economy, operation and coordinated sustainable development of economic systems involve, necessarily, to obtain the highest results and meeting/satisfy the needs of present without compromising the ability of national economies to satisfy their own requirements in the future more or less distant.

A determining factor in business relationships and their success, regardless of export choosen manner and the type of contract used, is the price, contributing to the size of revenues from export, revenues that allow, among other things, make investments in infrastructure leading to raising living standards and social security.

Starting from the importance of prices in achieving incomes related to international trade, in this article I will address the main categories of prices used in the export and import activity, also the models/patterns on the composition of the external price of export and import in terms of delivery conditions FOB, CIF and CAF.

Key words: price, international trade, export, import, delivery condition, custom value.

1. Introduction

In the current world economy conditions, the development of any state can not be based solely on internal sources and the national economy results. Domestic economy is supported by the export and import of goods and services, international trade is one of the key factors in developing the national economy, carrying the influence on growth is exercised in many forms.

First, foreign trade contributes to the achievement or processing of gross domestic product even in conditions as the demand structure differs from the structure of supply, and secondly, international trade determines the increase or decrease of national income produced outside depending on the ratio of the national and international value of the goods subject to international trade relationships.

The success of all operators involved in international trade plays on nationally zone, an important role in economy development.

Revenue from export permit, among other things, make investments in infrastructure leading to lifting living standards and social security.

In today's global world economy, the operation and develpoment on coordinates sustainabl of economic systems involve, necessarily, to obtain the highest results and satisfying the needs of present without compromising the ability of national economies to satisfy their own requirements in the future more or less distant.

A determining factor in business relationships and their success, regardless of manner of export choosen and the type of contract used, is **the price.**

Prices on international markets of goods take place, usually through confrontation between demand and supply, under pressure from global competition, being influenced by a multitude of other factors reflecting structural phenomena triggered by the crisis in the global economy, or specific factors of various groups of merchandise.

Starting from the importance of prices in achieving revenue related to international trade in this article I will address/approach the main categories of prices used in the export and import activity, also the patterns on the composition of the external price of export and import in terms of delivery conditions FOB, CAF and CIF.

2. Price categories used in international trade

In international trade meet on the various steps of the negotiation of contracts a multitude/lot of **price categories**[1], which differ depending on the nature of the transaction, the specific of merchandise, the policies of state or group etc., respectively:

- transaction prices, formed on the basis of direct negotiations;
- auction prices, formed in the auctions organized by the importers;
- prices formed on the basis of stock exchange quotes;
- other categories of prices.

a) The transaction prices are made on the basis of direct negotiations and whether they reflect and follow the normal process of negotiating the offer until the contract conclude or that reflects some protective or policy measures on commercial zones.

From this category takes part the following ***price categories:***

∗ ***Information prices***, of list or catalogue, are meant to provide a preliminary price information to purchaser, it applying, usually negotiable discounts, which can sometimes reach high percentages. Depending on the computation base, the list prices or catalog are very different (ex-warehouse, wholesale/gross, distribution etc.), which may include, in relation to local practices and customs/practices of the seller, some local taxes and other items to be studied, as appropriate, from product to product.

∗ ***Bid/offer prices*** represent prices at which goods are offered for sale. There is a wide range of offer prices set according to the condition of delivery, condition of payment proposed or requested and in report to some experiences specific to buyer.

∗ ***Transaction prices or contractual prices*** are the prices resulting of direct negotiation, based on supply, between the seller and buyer entered the contract, labeling also *„effective prices”* or *„external net prices of transaction”.*

Price for buy-sale is one of the essential elements of the contract of foreign trade and includes, in addition to the value per unit of product, other items of value depending on the specific contract, such as internal transport costs and/or external costs handling and loading on vehicle choice, insurance on external roadmap, interest included in the price, commissions, various other charges etc..

∗ ***The billing price*** is the price entered in the invoice issued for the lot delivered shall be sent for payment with the other documents specified in the contract.

Typically, billing price corresponds to the price entered in the contract, however, are cases in which the price billing, based on contractual provisions and technical parameters on the quality of the goods may differ from the contract if the goods delivered overshoot standard conditions which had set the basic price.

[1] Săndulescu, I., *Regulations and practices in international trade*, All Beck Publishing House, Bucharest, 1998, page 7

∗ **Base price** refers to a specific range or quality of merchandise prise that have been agreed by the parties in the transaction of sale, as a basis product, for determining through correlation of prices of other varieties derived, with some deviations in chemical composition, size, physical properties etc.. To prices of basic grants, if any cases, additions or rebates that are agreed between the contractual parties.

∗ ***The price in case of compensation or barter operations***

In the international contract is practiced, sometimes, especially between partners which do not have the foreign currency funds, the compensation or barter operations (exports against imports without reciprocal foreign currency transfers).

When one party is less interested and has a stronger position in placing on the market its product, even without compensation, it dominates its partner in negotiations and, rules in its interest, deviations at international market prices).

b)The tender/auction prices are encountered in practice or in specialized publications under the following ***categorie*s**:

∗ ***Offer price*** is one of the basic elements in assessing the tenders, but not only, giving it only a general indication of the competitiveness of the offer concerned.

∗ ***The price of best offer/tender*** is contained in the tender assessed as the most advantageous, which is not automatically the lowest price offered in the auction. Practice that price best education is the lowest price offer, this situation results from the complexity of the procedures for evaluating and comparing tenders. Evaluation of tenders is carried out by determining the total cost of each tender in part so as to make possible comparisons between them.

Establishing the total cost estimate shall be based on the bid price adjusted for the influences of other factors evaluated, if possible, in monetary terms, which we mention: the cost of internal transport until to the place of the project, conditions of payment offered, the time of delivery or implementation, specific consumption and operating costs of the equipment offered, compatibility with other equipment located on site, providing the service, spare parts and, in general, post-sale services, safety methods of operation, terms and conditions guarantees offered and other factors that could have a significant influence on the estimated total cost of tenders.

∗ ***The price of winning tender/offer***

Under national rules and regulations of international financing institutions, a tender is awarded to the qualified tenderer which has submitted the most advantageous tender and has the technical capacity and financial potential necessary for the fulfillment of obligations what will return from resulted trade.

Criterion best offer is not the only criterion taken into account in awarding the tender, the successful tender should fulfill the other conditions, such as proof of technical and financial potential.

There are situations when the auction is not awarded neither to the tender or even the most advantageous offer to satisfy additional conditions, but to another bidder who answer certain criteria considered with priority by the acquiring authorities.

It results that the winning bid price may sometimes differ substantially, both the lowest total estimated cost and the lowest price offer.

∗ ***The contract price*** means the price specified in the commercial contract concluded in an auction. Between the moment of announcing the auction winner and the moment of contract signing between the organizer as a buyer and successful as a seller, negotiations may be related to various contractual clauses that may affect the price contained in the original bid auction winner so the final price agreed and stipulated in contract to be different from it.

c)Prices formed on the basis of stock exchange quotes

The stock exchange merchandises are important instruments for conducting international trade in fungible products, mass (raw materials, agricultural and industrial) and give guidance on the existing price level, and to close the prospect on the goods covered by their activity. Prices that are formed to the stock exchange, called *quotations,* are determined by the adninistration of exchange stocks , in some cases, by specialized organizations related of the volume and the degree of representativeness of actually made transactions.

Quotations are[2]:

- *available or spot*, for prompt delivery (1-15 days) or sometimes up to 30 days from the contract signing;
- *in time* for future deliveries, respectively at periods of 1 to 3 months from the transaction;
- *nominal quotations*, are these quotations stocks, which is usually formed at the second auction (afternoon) and unlike other quotations did not actually based on transactions concluded on the exchange.

The first two quotation categories represent the linits in which lies the likely development of the price level for a commodity and they represent for producers and consumers, rerspectively for exporters and importers, a tool for guidance of future operations of sales or purchases.

The prices formed on the basis of quotations from both companies are sensitive to international and military political tensions as well as in inflation and future fluctuations.

Trends registered in price areas influence and determine trends in the commercial cycle. Often very high prices that reduce the demand and the consumption, as low prices may stimulate demand and thus increased the business volume.

Using the trend registered in the quotations of exchange fluctuation, the seller can establish the strategy and tactics to achieve its sales in order to obtain maximum price advantage by choosing a favorable situation when the sale are payed to available resources or to the future term as employed by the quotation level, and by use the advantage given by the geographical position.

The cautious sellers and buyers, are seeking to buy and sell more frequently, over the year in order to enroll in the annual average of the quotations, not taking the risk and unpredictable fluctuations. Others, who assumes the risk, carry out the speculation operations, which may lead either to expansion of wealth or bankruptcy.

d) Other categories of prices met in the frame of international trade

În the commerciale internaționale areeas ***are others categories of preices***,such as:

- limit price;
- dumping price;
- sliding or movable prices;
- transfer prices;
- cartel prices;
- average prices;

∗ ***Limit prices*** are used on products, in international agreements, by the associations of producers and consumers or producers cartel.

Levels established are implementing by the measures agreed by the previous participants and are frequently used to request the ratio between ask-bid.

Price limits are known as "intervention prices" are *of two kinds*:

- *price of high level (ceiling);*
- *price of low level (threshold).*

[2] Săndulescu, I., op. cit., page 13

∗ ***Dumping prices*** are charged by sellers to deliver goods to markets, to broaden its market position by eliminating all or part of other competitors.

Sometimes dumping prices, are lower production and marketing prices of local producers, leading to a disruption in the economy of the importing country.

The developed market economy countries, requires the rule as a measure to prevent dumping, under their protective programme, so-called price threshold below which foreign exporters must not fall. Practicing these prices may have undesirable effects for the producer/ exporter if the price does not provide external practiced recover costs of production and marketing, which are influenced by price fluctuation in raw resources, materials and labor incorporated in export product.

∗ ***The sliding or mobile prices*** form in the clauses specified in the contract which set out how the future of fixing the price of goods on the market price base of a certain date.

∗ ***Transfer prices*** are used by the subsidiaries of transnational companies that located in different countries, which represent overall exchange within the same entity.

Depending on the interests of the parent company and subsidiaries, the transfer price differs substantially from the price of the transaction on the open market for comparable products.

Thus, the transfer price is either undervalued or overvalued, reason for presenting a low degree of comparability, no conclusive data to third parties.

∗ ***Prices of cartel*** *(monopoly or oligopoly)* are determined by those who are part of a cartel and coordinate their trade and spheres of influence based on a general agreement that allows participants to market their products at higher prices.

∗ ***The average prices*** are unit values of statistical, determined, usually by dividing the quantities included in the statistics of customs import or export of the country, being conclusive only to items of uniform and statistical reports of short duration (1-3 months).

To the goods with the assortment and complex dimensions types (heterogeneous) structures the average prices are not relevant.

The average price does not help to analyze a transaction price at a moment of time, but eventually to the general assesments related of feedback on the effect of prices over a period considered to calculate the indices or prices, price dynamics over a longer period etc..

Following negotiations with external partners the price obtained should be the best taking into account the situation of the global market since the negotiation moment, the quality of technical and functional parameters comparable with those of competition, the delivery and manner to pay.

3. Models to calculate the external price in terms of delivery conditions FOB, CAF and CIF

Depending on the business of foreign trade, foreign price, as element of the international contract of sale may be:

- external/foreign export price (external sale price);
- external/foreign import price (external buy price).

1) ***Foreign export price*** varies in size depending on the delivery of merchandise for export, manner how to achieve the export, mode of payment of their value by the external customers etc., which are agreed at the conclusion of trade international sales contracts.

❖ ***According to delivery quantities***, the export external price or the sale price (PV) is calculated taking into account the negociated sale price of merchandise FOB net in foreign currency ($P_V^E FV$), the external transport (Tv) and expenses for external insurance of merchandises (Av), thus:

- in delivery condition FOB, the external/foreign sale price (PV_{FOB}) is:

$$PV_{FOB} = P_V^E FV \qquad (1)$$

- in delivery condition CAF, the external/foreign sale price (PV_{CAF}) is:

$$PV_{CAF} = P_V^E FV + T_V \quad (2)$$

- in delivery condition CIF, the external/foreign sale price (PV_{CIF}) is:

$$PV_{CIF} = P_V^E FV + T_V + A_V \quad (3)$$

❖ Given the manner of achieving exports (directly and indirectly) and the price of foreign export or sale (PV) considers the various commissions or quotas for representation of services abroad (C_V) and foreign interest (D_V).

Corresponding to the three conditions of delivery addressed to the point a) the external export price is determined as follows:

- *in delivery condition FOB*, for:
  - direct export with immediately payment:

$$PV_{FOB} = P_V^E FV \quad (4)$$

  - direct export with credit payment:

$$PV_{FOB} = P_V^E FV + D_V \quad (5)$$

  - commision export with immediately payment:

$$PV_{FOB} = P_V^E FV + C_V \quad (6)$$

  - commision export with credit payment:

$$PV_{FOB} = P_V^E FV + C_V + D_V \quad (7)$$

- *in delivery condition CAF,* for:
  - direct export with immediately payment::

$$PV_{CAF} = P_V^E FV + T_V \quad (8)$$

  - direct export with credit payment:

$$PV_{CAF} = P_V^E FV + T_V + D_V \quad (9)$$

  - commision export with immediately payment:

$$PV_{CAF} = P_V^E FV + T_V + C_V \quad (10)$$

  - commision export with credit payment:

$$PV_{CAF} = P_V^E FV + T_V + C_V + D_V \quad (11)$$

- *in delivery condition CIF,* for:
  - direct export with immediately payment:

$$PV_{CIF} = P_V^E FV + T_V + A_V \quad (12)$$

  - direct export with credit payment:

$$PV_{CIF} = P_V^E FV + T_V + A_V + D_V \quad (13)$$

  - commision export with immediately payment:

$$PV_{CIF} = P_V^E FV + T_V + A_V + C_V \quad (14)$$

  - commision export with credit payment:

$$PV_{CIF} = P_V^E FV + T_V + A_V + C_V + D_V \quad (15)$$

If we take into account that the time between billing and payment of the price of foreign sales or export exchange rate fluctuates, then the exporter can record differences in exchange rates favorable or unfavorable if the sale is conducted at a fixed exchange rate, differences affecting income or financial expenditure of entity:

Differences of foreign currency course (D_{CV}) is computed for:

- settlement with external customers who receive value of delivered merchandise:

$$D_{CV} = V_{FE} \text{ x } (C_{SI} - C_{SF}), \quad (16)$$

consisting of:
V_{FE} - value of external invoice,
C_{SI} - rate exchange in moment of collecting,
C_{SF} – rate exchange in moment of billing.

- payment of external services (transport, comissions for mediation, insurance) units working in foreign currency:

$$D_{CV} = V_{FE} \text{ x } (C_{SP} - C_{SF}), \quad (17)$$

consisting of:
C_{SP} – exchange rate in payment moment.

2) ***Foreign/external import price***, as foreign export price is determined according to the delivery conditions of merchandises, the manner to import and mode to pay the value of it to the foreign suppliers.

❖ *In the delivery condition FOB the foreign port of discharge*, the import company owes to foreign suppliers only merchandise prices, and this single organise the bringing of goods into the country bearing also external costs appropriate.

❖ *In the delivery condition CAF, romanian port of discharge,* the import unit due to external suppliers the price of goods and transport costs during externally transport.

❖ *In the delivery condition CIF, romanian port of discharge* the import unit due to external suppliers the price of goods and transport costs during externally transport plus the insurance costs on external transport. Depending on how to import and how to pay the value of imported goods in foreign import price can be set different commission, levels of service during the external transport, costs of loading, unloading and handling attachments to transportation of imported goods, paid during external transport etc.

In conclusion, ***the foreign price of imports*** is the ***customs value*** of imported goods and includes:

- import price of foreign goods provided in condition FOB (FOB net);
- freight during external course;
- adjacent transport costs of imported goods (cost of loading, unloading etc.) paid during external;
- the cost of insurance;
- ther expenses during externally.

The customs value is in fact the Romanian CIF port of unloading or franco-romanian border and includes all expenses incurred in foreign currency to customs, the amount is expressed in lei, at the rate of clearance day, under declaration of import (DVI).

Because the external payment of bills does not coincide with the time of billing, at the external payment of bills may arise differences from exchange rate (DCV) favorable or unfavorable that is reflected in the accounts and is calculated as follows :

$$D_{CV} = V_{FE} \text{ x } (C_{SP} - C_{SF}) \quad (18)$$

In addition to foreign export prices and import, entities undertaking the operations of import and export use also the ***internal prices*** about export and import of merchandises.

Domestic export price expressed all expenses incurred in the country for the manufacture and disposal of certain goods for export and includes:

- selling prices of domestic suppliers (price of production, selling price);
- spending special production for export;
- special packaging costs for export;
- costs of movement to romanian border.

Domestic price of import is the basis of setting prices for imported goods delivery.

In negotiating the price of domestic imports, import entities shall take into account two c*omponents*:

- custom value;
- importer's margin.

The importer margin, called the dealer margin, refers to the value that allows the importer to cover the costs of movement and to make profit. Included in this amount also and the fees and commissions paid in advance and can not recover.

Thus, the arrival of the goods in custom shall be made following ***payments***:

➢ *duty tax* which is calculated for all goods in customs tariff and import quota is determined in percentage differentiated on groups of goods.

Is determined by applying percentage rates to the customs value converted in lei, at the rate of import customs declaration, constituting itself as income to the state budget

➢ *customs commission* is calculated by applying a single rate of 0,5% in value of the goods, as is the income available to the Directorate General of Customs.

➢ *exiges,* shall be determined for certain goods on the basis of differential rates in the laws governing this form of taxation.

According to the cascade calculation, the taxable amount is the sum of following issues: the customs value in lei at the rate of customs declaration of import, tax duty and customs commission.

As customs duties, excise duty shall constitute income to the state budget.

➢ *value added tax*, value is calculated in custom based on rates applicable on the customs value of goods and payments made to customs (duty tax, the commission of customs, exiges).

Value added tax is not a component of the price of imported goods, it added to the selling price (value added tax collected).

The custom control on goods subject to trade between Member States of the European Union has disappeared and no longer traders must fill in customs declarations for these goods

Thus, the export notion is replaced by the ***intra-community delivery*** phrase and the concept of import to the ***intra-community acquisition***, operations which are subject to a separate tax.

An important issue on which exporters have to solve is that of limiting the risk from contracted export prices.

The price risks can have the features of hazardous nature or foreign currency. During the progress of the contract price due to the risk of damage to one of the contracting parties increase as the performance of the contract is greater.

Currency risk is manifested in the performance period of the contract and the time to use resources borrowed in foreign currency.

In order to reduce price risk is recommended contract and non-contract methods, risk coverage at microeconomic level, the exporter having in this regard available contract price indexation method (used more often in the export of machinery), the foreign currency clause method (simple, complex reference with SDR) or exchange stocks specific operations instruments.

4. Conclusions

Exporters and importers must take into account, in carrying out foreign trade operations, the nature of goods, exchange rate fluctuations, economic and political stability in those countries so they have a positive effect on national economy.

Foreign trade contributes, directly, to save social work when the products are exported as close values to the international price, differences achieving negative minimum and when the purchase of imported goods, which are conditions in the country of manufacture or which would require expenditure of social work that exceeds the amount of international, is made positive differences in price, which may offset or even exceed the differences in negative export price.

Overall, foreign trade can be profitable for those countries whose general level of labor productivity is below the international level, situation when the balance of the price differences between exports and imports is positive.

In conclusion, *the external trade is efficient* in two cases:

- when export is advantageous in its money expression overall, because the number and share of national export with less value are higher than the number of products exported and the share of national value greater than the average international value;
- when the general level of labor productivity is lower than the world one, but the result of comparison, in absolute terms, of exports and imports is positive due to the implementation of positive price differences.

Given the complexity of the trade activity can say that the manner to implement the operations of export and import, the delivery conditions of goods, prices and documents used in international transactions, also the means, instruments and methods of payment and financing used to external/foreign trade put their footprint on the organization and performance of them by their production units or by the specialized foreign trade societies specialized in external/foreign trade involving a number of implications of legally, financial, tax and accounting nature.

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