Methods for Performing International Commercial Transactions

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METHODS FOR PERFORMING INTERNATIONAL COMMERCIAL TRANSACTIONS

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ABSTRACT

Romania's accession to the European Union has caused a series of changes in the structure of the international commercial transactions, as from 01 January 2007 they do no longer include the acquisitions and deliveries performed between the European Union Member States.

I shall try in this paper to point out the methods to perform the import and export operations, specifying the advantages and disadvantages of their use and also the specific aspects concerning the accounting organization for the entities that make such transactions.

1. Introduction

The elimination of customs barriers between Romania and the other Member States of the European Union has influenced the international commercial transactions, which as from 01 January 2007 do not include the operations carried out within the Community. Considering the interdependence relationships between the parties, within the international commercial transactions, based on the stages of internationalization of business there are included:

- international commercial transactions (external trade operations in a limited meaning);
- strategic alliances and international co-operations (licensing, sub-production, franchising);
- implantations abroad (direct investments in production and marketing).

In a limited meaning we may say that the international commercial transactions involve the international exchange of goods and the main form of achievement is represented by the export-import operations based on the interdependence between countries within the scope of marketing, being founded on the Contract for the international sale of goods.

I shall try in this paper to refer to the methods for performing the international commercial transactions, to the advantages and disadvantages of their use and also to the specific aspects concerning the organization of accounting for the entities that carry out such activities.

2. Motivation and substantiation of international commercial transactions

International commercial transactions are made through external trade organizations specialized in this field that perform import and export operations outside the Community, entities that prospect, promote, negotiate, contract and carry out the commercial transactions. Through the relationships they have with external markets on the one hand and with internal suppliers and beneficiaries on the other hand, they have a significant influence on both the production intended for export by adapting the former to the world market requirements and on the internal demand for goods and services, facilitating its diversification.

Irrespective of the size of enterprises or their field of activity, business development on international level tends to become a necessary condition for the existence of enterprises and the business strategy must meet the exigencies of globalization.

In practice economic agents are involved in international business through import and export operations, most frequently commercial transactions represent the exclusive form of internationalization in the case of small and middle enterprises.

There are *three categories of motivations* that determine the export decision, i.e.:

- demand related motivations referring to the products with commercial success on internal level and that can be marketed on the external market upon the foreign partners' request;
- offer related motivations, implying that the exporter gets involved consciously on the external market in order to seize opportunities;
- motivations concerning the attitude of management of pro-internationalization, orientation of the enterprise towards the outside.

The substantiation of strategy of international commercial transactions is performed according to an analysis that considers on the one hand the business environment characteristics (external analysis) and on the other hand, the evaluation of the firm's capacity to integrate in the world market (internal analysis).

The premise of strategy elaboration is created by the identification of advantages (opportunities) and evaluation of costs (risks) concerning the international extension (external analysis) and also by the diagnosis of the firm's economic capacity (internal analysis).

3. Methods to perform international commercial transactions and specific aspects concerning their accounting and settlement

External trade represents an important factor of the national economic increase, determined and determinative for the globalisation process. In order to make international commercial transactions, the external trade organizations, importer and exporter, may use several methods. Considering the access manner on the external markets, there are operations made directly by the firm or those where the importer or exporter goes to an intermediary agent or a trade house. Combining the previous criterion with the degree of involvement on the external market and taking into account the stages of business internationalization from the exporter's perspective, there result *three methods to perform the operations*, i.e.:

- ✓ direct export;
- ✓ indirect export;
- ✓ export through intermediary agents.

The direct export represents a form of international commercial transactions through which the producer concludes and performs the Contract for the international sale of goods, thus establishing a direct relationship with the external customer.

The direct export knows several forms of achievement that go from performing the transaction with foreign customers through the organizational structure of the firm in the origin country, to using a representative abroad and to the creation on the international market of structures that depend on or are controlled by the exporter.

The creation of a personal instrument of external trade has a series of *advantages*, such as:

- producers are kept in direct contact with the market;
- producers are offered the chance to promote their products, the factory mark which leads to the enterprise consolidation on the external market;
- producers are offered the chance to participate in the appropriation of the trade profit.

Direct export and import has also a series of *disadvantage*, i.e.:

- the risks of the external trade activity affect the firm directly;
- the constitution of services or compartments profiled on international activities, with speciality personnel, implies new costs and risks in the management plan;
- because of the increased level of marketing expenses, the direct export becomes profitable only from a certain volume of sales.

The indirect export implies the separation of marketing functions from the production ones in autonomous units that act as traders. Thus, the producer or exporter sells the goods to a trade organization that makes the export on its behalf and on its own account.

In this case the producer does not undertake the expenses and risks for marketing his goods abroad, he is not in close connection with the external market and the external trade organization represents the interface between the internal and the external environment.

Trader's purpose is to make profit from the difference between the selling price abroad and the purchase price in the country, undertaking both the price risk and the foreign exchange risk.

As *characteristics* of the indirect export we can mention:

- ✓ the external marketing function is fully transferred from producer to the trade organization;
- ✓ the producer is separated on the external market, having indirect access to the information concerning the characteristics of request;
- ✓ the activity of market prospecting, negotiation, contact and running is made by the external trade organization;
- ✓ trade organizations provide suppliers the advantages of specialization in the field, qualified personnel and good custom.

The choice of this method to perform international commercial transactions is recommended for the small and middle enterprises that cannot or do not think it is efficient to create their own export structures, or when export represents a relatively high quota from producer's turnover.

The export through intermediary agents as a method to perform international commercial transactions by the means of a person other than the interest holder, whether it acts on one's behalf but on somebody else's account, is situated as a juridical and performance status between the direct and indirect export.

The intermediary agents can be represented by:

- the commercial agent or representative and commissioner, in continental legal terms;
- the agent, in Anglo-Saxon legal terms.

The commercial agent or representative is often a legal person that acts on the basis of the order received from the principal to perform commercial deeds concerning the sale and purchase of goods on his behalf and account based on a Representation or Agency Agreement. Commissioners can be natural persons or companies that take part in the conclusion of operations on their behalf but on others' account.

Starting from the characteristics of the previous three methods to perform international commercial transactions, we can say that these commercial operations can be made directly or indirectly. According to the *direct method* the organization and performance of external trade operations (export and import) is made by the producing companies on their account and risk.

The indirect method implies the intermediation of export and import by external trade companies, either on their account or as commissioners of the producing or beneficiary units. Thus, when external trade companies act on their own, they buy goods from internal or external suppliers (import) and then sell them again outside the country (export) or inside, on their behalf, account and risk. If the external trade companies act as commissioners of the producing or beneficiary units, exchanges are made on the behalf of external trade companies, but on the account and risk of principals (producing or beneficiary units).

The method to perform international commercial transactions according to the indirect method from the point of view of their reflection in the ***accounting of external trade companies*** has the following characteristics:

- in the case of those *performed on one's account*, external trade companies reflect in accounting all the results of the external trade activity, i.e. all the expenses and income concerning the marketing of goods and also the administration and management expenses;
- in the case of those *made in commission*, external trade companies record in accounting only the income from due commissions and the administration and management expenses, the results of the external trade activity are recorded by principals.

And ***from a juridical point of view***, the indirect method leads to singularities. Thus, in the case of external trade performed on the external trade companies' own account, binding agreements must be concluded both internally and externally, and in the case of operations in commission, agency agreements must be concluded internally and binding agreements externally.

Regarding the ***settlement of external trade operations***, the procedure is as follows:

- ✓ for the international commercial transactions made on one's account, the internal settlement is made upon the purchase of goods intended for the export, i.e. upon the sale of the imported goods internally;
- ✓ in the case of international commercial transactions made in commission, settlement with internal producing units is made after the payment of the exported goods and settlement with internal beneficiaries of the imported goods is usually made before the import.

4. Conclusions

The development of international business tends to become a necessary condition for the existence of enterprises, irrespective of size or activity field and its consequence is that internationalization and globalization are fundamental features of this beginning of century and millennium. The internationalization of commercial transactions, understood as carrying out these activities beyond national borders, except for the community space, is not a new phenomenon in the world economy. In the post-war period it gets an unprecedented boom under the impulse of several factors, such as: post-war reconstruction process, institutionalization of international economic relationships, progressive elimination of barriers from the international commercial and financial flows, reduction of transport and communication costs, technical evolution of transport means, extension of transnational companies' activity.

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