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MODELING THE PRICE OF A FOREIGN TRADE CONTRACT CONSIDERING INCOTERMS 2010

To improve financial condition and increase profitability, an enterprise needs to expand its product markets, partner with new customers, and enter into contracts.

When entering foreign markets, it is important for the enterprise to set and calculate the price for its product correctly, since price is the main criterion for making consumer decisions.

Enterprise selected for research is a subsidiary company «Romanivski lisgosp APK». The company plans to export lumber.

The exporter, «Romanivski lisgosp APK», must determine the country which company's products to be exported to, investigate its business environment, comply with international and national rules on the content of the FEA contract. The exporting company must choose the trade term of Incoterms 2010, and calculate the total cost of the FEA contract according to the research.

Thus, the process of modeling the price of a foreign trade contract involves a number of stages, in particular:

1. Identification of the largest lumber importing countries

The Atlas of Economic Complexity was used to determine the largest importers of lumber [1].

The world's largest lumber importers have been identified, and the largest lumber importers are: the USA, China, Japan, Germany, the United Kingdom, France, Italy, the Netherlands, Canada and South Korea.

2. Search for potential importers of products that will be manufactured by the company

The largest lumber importing companies were identified: «Montana»(USA), «GION» (China), «ORICO» (Japan), «Kruger» (Germany), «LISPANT» (the UK), «LAZ» (France), «Ambassador» (Italy), «TARB» (the Netherlands), «Royal» (Canada) and «NOMU» (South Korea).

3. Assessment of the business environment of countries of registration of potential counterparties.

The next step is to evaluate the business environment of potential buyers, to study tax rates and import payments for lumber in the countries of import of these products. For this purpose we will use the site of the International Trade Center [4], and the data on tariffs by groups of the International Classification of Goods. To determine VAT rates we will use the site of consulting and audit OLZA [3].

4. Construction of alternative routes, choosing the best ones.

The next step is the choice of route and means of transportation, as well as the cost of delivery. In order to build the route and calculate its cost we will use the global transportation aggregator, supplied with the access to the largest network of

independent SeaRates agents. [2].

5. Negotiating with potential counterparties.

After the negotiations and prior agreements were reached, the bases of delivery, the price per unit of the goods, the cost of packing the entire volume of the goods and the currency of payment and the contract currency were agreed.

6. Calculation of the cost of alternative import offers of potential sellers and justification of the price of the FEA contract.

The calculations for this stage are presented in table 1.

Table 1
Calculation of cost of delivery of exported products, taking into account trade terms of Incoterms 2010

Indicator	Supplier / Base (Formula) Incoterms 2010									
	«Montana» /FCA	«GION» /CPT	«ORICO» /DAP	«Kruger» /FCA	«LISPANT»/ EXW	«LAZ» /DDP	«Ambassador» /CPT	«TARB» /DAT	«Royal» /DAP	«NOMU» /CIP
Delivery volume	200	200	200	200	200	200	200	200	200	200
The suggested price	110	110	110	110	110	110	110	110	110	110
Delivery cost	22 000	22 000	22 000	22 000	22 000	22 000	22 000	22 000	22 000	22 000
Export customs formalities	0	0	0	0	0	0	0	0	0	0
Transportation costs in Ukraine	930	930	930	930	930	930	930	930	930	930
Payment at the terminal in Ukraine	435	435	120	435	120	435	435	435	435	120
Cost of basic transportation	1 000	1 490	1 420	950	690	1000	850	1 350	4 100	885
Cost of transportation within the country of export	100	906	244	584	331	367	179	640	2 549	127
Payment at the terminal of the buyer's country	581	325	325	362	375	279	325	424	200	295
Import customs formalities, incl.										
- import duty	704	1 320	814	0	0	0	0	0	0	1 760
- VAT	-	3 964.40	1 825.12	4 180	4 400	4 400	4 840	4 620	1 320	2 376
Insurance costs	4 400	4 400	4 400	4 400	4 400	4 400	4 400	4 400	4 400	4 400
The cost of production, according to the proposed basis	23 365	26 086	25 039	23 365	22 000	29 411	24 719	25 779	30 214	28 757

7. Choosing the best buyers.

The simulation of the cost of delivery of the exported products, based on the trade terms of Incoterms 2010, allows to argue that the most advantageous are the proposals of these companies:

- Royal from Canada (Incoterms 2010, trade term – DAP) estimated cost to complete contract and product delivery is \$ 30,214;
- LAZ from France (Incoterms 2010, trade term – DDP), \$ 29,411;
- NOMU from South Korea (Incoterms 2010, trade term – CIP), \$ 28,757.

Therefore, the type of products to be exported, the potential buyers and the country to which the products will be delivered were selected. The business

environment of each country was studied, and the international and national legal norms regarding the content of the FEA were taken into account.

The cost of delivery of the exported products was calculated taking into account the trade terms of Incoterms 2010 and the most favorable offers were identified.

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