20 per cent below production capacity, the factory burden (C$4.20) actually represents sunk costs that are incurred whether or not the export order is accepted. Third, there are almost no administrative costs involved in the transaction, since the trading company will pick up the product at the plant in return for cash payment and then handle exporting. In addition, the accountant points out that, like factory burden, administrative costs (C$7.73) are sunk costs that are already covered by domestic sales.

He concludes that, keeping to the average profit margin, the wheelbarrows could be sold to the trading company for as low as:

	Material	C$20.52
+	Profit	C$5.45
=	Minimum f.o.b., ex plant for export	C$25.97

The president of the manufacturing firm is not entirely convinced. He is opposed in principle to the idea of selling so low and he observes that it would be unwise to set a precedent of "subsidizing exports at the expense of domestic operations." Still, he is keen to export and the trading company's offer is tempting. They do the work and he makes a quick C$3 000 dollars. He decides to continue negotiations.

Mr. Kampouris is asking for C$32.00, so he starts quite comfortably at C$36.00, knowing that he can go well below that price. There follow a few rounds of final offers and counter offers, peppered on both sides with remarks about "how hard it is to make a buck these days." But they finally agree on an f.o.b. ex plant of C$34.33 and Mr. Kampouris manages to get some C$200.00 worth of spare parts included at no cost.

The deal turns out to be quite lucrative for all three parties. At C$34.33 f.o.b. ex plant, the trading company makes C$3.10 (C$43.09 [landed target price in Port of Spain] less C$5.66 [DEC] less C$34.33) per wheelbarrow, fairly close to his original targeted profit of C$3.39. The manufacturer makes the usual average profit of C$5.45 and in addition gains a contribution to overhead (factory burden, administration and marketing costs) of C$8.36 (C$34.33 – C$25.97). For this particular operation, the reverse of what was feared happens: exports subsidize domestic activities rather than the reverse. The importer gets the same price as he would have had from Denmark. He also saves by not having to pay interest or letter of credit charges (since the trading house did not require one). The free parts are included in the deal and an additional intangible advantage is that Naim is buying from his friend Kampouris whom he trusts and who will be there to solve any problems that may arise.