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Analysis of importing process of Canadian Ice Wine to Finland

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Abstract

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The thesis was made for the needs of a company planning to import dessert wine called ice wine from Canada. The objectives of the thesis were to research the steps of the importing process, the laws, formalities, prerequisites, and stakeholders related to importing alcohol to Finland. In addition, the objectives were to find out what kinds of challenges and problems a wine importer might face and what kinds of sales and distribution channel alternatives there are for wine in Finland. Since the company has no prior importing experience, the purpose of the thesis was to define importing process related issues the company should be prepared for. The results can be useful also for other small companies interested in wine import.

The thesis was based on secondary research and analysis of that information for the company's needs and on one interview with a Finnish wine importer. Literature review was conducted by studying information related to the importing process from an operative point of view.

The main results and the conclusions of the thesis are that it is very important to have a sufficient cargo insurance due to long distance and possible theft. For a small company the use of freight forwarders for transportation arrangements and customs declarations is essential since they have the expertise and network needed when importing from outside the European Union. A wine importer can sell and distribute wine in Finland through the retailing monopoly Alko Oy, or via restaurants and bars. The distribution is most efficient when it takes place either from the importer's own or subcontracted warehouse.

Keywords	Ice wine, import, regulations, customs, freight forwarding
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Glossary

BOL	Bill of lading
CO	Certificate of origin
Covid-19	Coronavirus (COVID-19), “an infectious disease caused by the SARS-CoV-2 virus.” (WHO, 2021). A global pandemic that hit in the beginning of the year 2020.
EDI	Electronic data interchange
EMCS	Excise Movement and Control System
EORI	Economic Operators Registration and Identification number - “an identification number in all customs procedures when exchanging information with Customs administrations.”
FCL	Full container load
KPI	Key performance indicator
LCL	Less than container load
SLA	Service level agreement
TEU	Twenty-foot equivalent unit. One 20-foot container equals to one TEU.

1 Introduction

Base On Oy (Ltd.) is a small company which my parents own. The company has generated some cash flow by billing consulting work hours through the trade name. Before my parents are retiring, they would like to start importing wine to Finland. They have registered a new trade name for the wine importing business, Base On Wines. The product that the company has considered to import is Canadian ice wine. Even though the purpose of this thesis was to do research for Base On Wines company, the results can be helpful for other wine import traders in Finland who are starting to trade from outside the European Union. The product itself, Canadian Ice Wine, research methodology and objectives of the thesis are discussed in this chapter.

1.1 Canadian Ice Wine

Ice wine is produced in a unique way because the grapes are plucked while the ground and the vines are still frozen. It is recommended that the grapes are left on the vines until at least November, of course depending on the average temperature and the frost that year. (Chiasson, 2020) It is possible to concentrate the frozen grapes' flavour because the sugars of the grapes do not freeze, only the water in them. After the frozen grapes are plucked, they are inserted into a special machine to be pressed. As said, the harvesting of the grapes is highly dependent on the weather and whether the grapes are frozen at all. The end-product could take up to even months because the grapes have high sugars levels that lengthen the fermentation process. In addition, the high sugar levels of the grapes allow the wine to age for several years. (Hancock, 2018)

The ice wine production is also regulated in order to protect the consumers and to deliver exactly what they are expecting to buy. Thus, the wines are produced in the natural method of frozen grapes and that have "sugar level measures 35 degrees Brix" are allowed to be carry the name of ice wine. (Chiasson, 2020)

Ice wine is sold in smaller bottles, mainly because of its sweetness and therefore it is consumed only in few sips per serving. In addition, ice wine is expensive. The risks which include rotting, wind- and hailstorms, and hungry birds or animals which all can easily ruin the yield. In addition, the producing of ice wine is labour intensive. The producers need use a lot of resources on employees and might need to compensate even extra, because the employees need to be available to go out and harvest the grapes by hand in the middle of the night and in a freezing weather. The grapes need to be pressed very quickly after the plucking because they cannot start to thaw at any point in between. Finally, ice wine is expensive because the yields are so limited and naturally small, there is less ice wine in circulation. (Chiasson, 2020) Figure 1 shows examples of different kinds of ice wines. The bottles are more narrow than common wine bottles and the colour depends on the type of the ice wine.



Figure 1: Different kinds of ice wine (Wine Folly, 2020)

Canada being the largest ice wine producer in the world, produces more wine than other ice wine countries together. The leader in ice wine production in Canada is Ontario which produces 80 to 90 percent of the Canada's ice wine. (Chiasson, 2020)

1.2 Objectives and scope of the thesis

The business idea of importing Canadian Ice Wine to Finland is interesting, however, implementing it in practice will be difficult because the importing process involves multiple steps and parties and the wholesale of alcohol in Finland is highly regulated. The research made in this thesis was for a small family-owned company. The main objectives of the thesis were to provide the case company a detailed description of the importing process and the required formalities related to it and to study what are the sales and distribution alternatives and regulations and requirements related to the import process of alcohol to Finland. This thesis focused on studying maritime transportation options. However, air transportation is also an alternative for shipping alcohol. The main reason for the focus of the thesis to be on the maritime transportation was that the company, which was interviewed to gain a company perspective and experience for the analysis, uses only maritime transportation for their imports from outside the EU.

The main research questions of this thesis were the following:

1. Which steps and parties are involved in the importing process of alcohol?
2. What are the formalities and prerequisites involved in the import process?
3. What are the challenges of the import process of wine for the importer?
4. What kind of alternatives for sales and distribution channels can the company have in Finland?

The thesis consists of different sections such as an introduction to the product itself, study about the Finnish system of importing and selling alcohol, transportation conditions and issues, import formalities and the importing process. Finally, results of an benchmarking interview to the CEO of Tampereen viinitukku Oy (Tampere Wine Wholesale Ltd.), is discussed and conclusions made based on this and the literature review.

1.3 Research methodology and limitations

This research was based on both secondary and primary data. To gather information and theoretical background about global logistics and export and import management I studied different scientific articles, blog posts and books. In addition to secondary research based on literature I interviewed Marko Horto, the CEO of a Finnish wine importer called Tampereen viinitukku Oy (Tampere Wine Wholesale Ltd). The purpose of this interview was to gain some understanding of the challenges that a wine importer might face. Additionally, the target of the interview was to gain knowledge about the possible customers and sales and distribution channels. The interview took place on the 16th of March 2022 and was a semi-structured interview with 10 main questions (see appendix 1). However, the questions were open allowing new ideas to be brought up during the interview as a result of what the interviewee said.

It was difficult to get more interviews from other Finnish wine importers. In the beginning of my study, I tried to contact 12 companies but none of them had time for an interview. I tried to get some more information also by sending a questionnaire by email. However, I received only an answer from one company. Unfortunately, it was too brief and therefore not useful for my study. After these failed attempts I was finally able to set up a face-to-face interview with Tampere Wine Wholesale Ltd. Due to just one interview, the results gained by primary research were a bit weak. However, I found that it was important to get some viewpoint from another company already importing wine to Finland instead of just relying on literature sources.

2 Sales and distribution of alcohol in Finland

According to Mäkelä et al., (2018) the three distribution channels for alcohol have been from year 1969 have been Alko Oy, other retail sales (grocery stores) and serving in bars and restaurants. Before 1969 the sales of alcohol were only limited to Alko Oy and the serving. In the year 1969 the Finnish government released the sale of beer having the alcoholic content between 2.8%–4.7% of its volume (keskiolut) from Alko Oy, so that it could be sold in grocery stores, therefore the third distribution channel was formed. However, the sale of alcohol beverages with the alcohol percentage more than 5,5% is not permitted in the grocery stores. (Valvira, 2021). As figure 2 illustrates, from the year 2008 until 2016, the sales of litres of 100 % alcohol in other retail sales market have been higher than in Alko Oy. The light blue line indicates alcohol sales which are not recorded. The pink line indicates the serving in bars and restaurants.

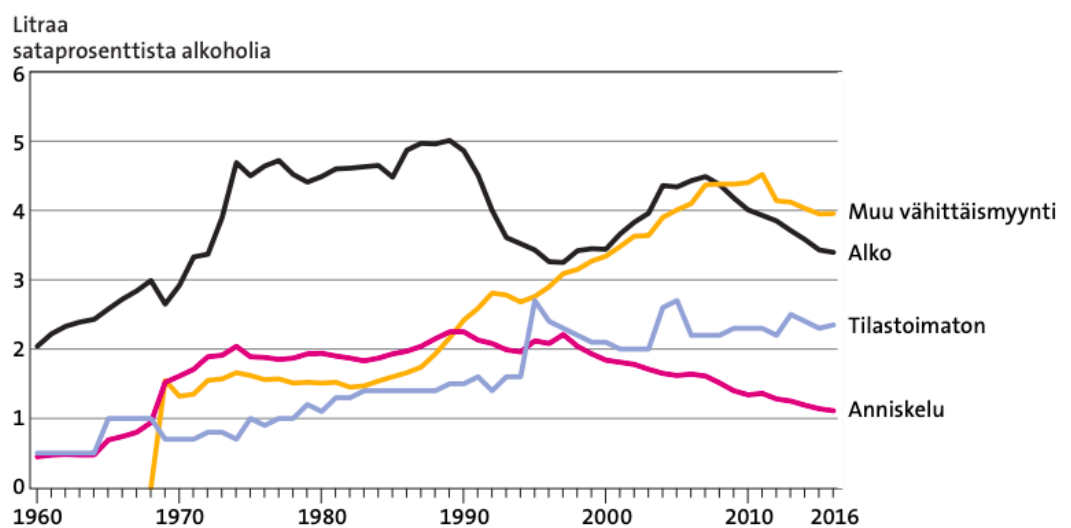


Figure 2: Alcohol consumption according to the distribution channel in liters over 100% alcohol per capita aged 15 and over, 1960–2016. (Mäkelä et al., 2018)

To conclude, the distribution of alcohol in Finland is mostly from grocery stores and Alko Oy. For wines it is Alko Oy for now, since the grocery stores are not allowed to sell it.

2.1 Laws and authorities of the alcohol wholesale in Finland

The authorities that are involved in the importing process of alcohol to Finland are the Finnish customs (Tulli), Valvira, and the Finnish Food Authority. All goods that are imported to Finland from outside of the European Union must be custom declared and released by the Finnish customs.

Valvira is the Finnish National Supervisory Authority for Welfare and Health that operates under the Ministry of Social Affairs and Health. Their duties are to monitor and supervise alcohol importers and grant licenses as well as manage notification activities. (Valvira, 2018)

The Finnish Food Authority is owned by the Finnish government. They first and foremost ensure food safety. In addition, they promote and develop the prerequisites for animal and plant production as well as health and welfare. (Finnish Food Authority, 2021)

The Finnish Alcohol Act law is considered as strict compared to e.g. many other European Union countries. By restricting the availability and the marketing, the Finnish alcohol policy aims to reduce harm caused by alcohol consumption. In addition, the excise taxes on alcohol aims to restrict the “economic availability of alcohol”. The Finnish Alcohol Act has been revised several times during the last decade. (Karlsson, Mäkelä, Tigerstedt and Keskimäki, 2020)

“According to the Alcohol Act, the wholesale of spirits and alcoholic beverages is subject to a license and allowed only to actors possessing a wholesale license for spirits or alcoholic beverages granted by Valvira.” (Valvira, 2018)

This means that the case company as an importer must apply for a wholesale license of alcohol from Valvira. In addition to wholesale, the license permits the company import alcohol to Finland. Valvira requires that importing license holder must notify them that they are acting as an importer well before starting the operations of import. As Valvira acts also as a monitoring organization, the importers must report to them all the products they have imported. In addition,

Valvira requires that “beverages imported from third countries (from outside the EU area) must have a first analysis certificate of the composition and quality of the product, issued by an approved laboratory.” This is only applied if the imported batch exceeds 100 liters. (Valvira, 2018)

There are also other sections in the Finnish Alcohol Law act that are targeted for retail purposes. For example, section 11:

“Anyone who imports or exports alcoholic beverages or spirits for commercial or other business purposes shall prior to commencing the activity submit to the Product Control Agency a notification of his/her activity as importer or exporter.” (Finlex, 1994)

As a requirement for the wholesale license from Valvira, the company must have premises where they store the wine. The premises have to be approved by the Finnish Food Authority since they also conduct inspections. Wine is a beverage and therefore will be classified as foodstuffs. The premises must be suitable for storing foodstuffs and such as room temperature and humidity should be tested. The company should consult their local food control authority regarding the storage conditions. In addition, Valvira will also oversee these premises. (Finnish Food Authority, 2021)

2.2 Alko Oy as wholesaler

Alko Oy is a Finnish government owned monopoly which exclusively sells alcohol beverages which have the alcohol percentage over 5,5%. Alko Oy acts a retailer to consumers as well as a wholesaler for businesses. Alko is open to collaboration with new suppliers and they have established rules for that. Alko does not discriminate against any supplier, and this is also stated in the Alcohol Act. Alko has a separate Selections, Products and Quality department, which are involved in the selection process. Alko also has ‘sale-to-order selection - process’, in which products that are available in their online are selected and can be ordered to Alko stores depending on the demand., The suppliers might be able to get their products to Alko’s selection in a relatively fast schedule. The sale-to-order selection has two categories. T1 is for normal sale-to-order

selection products, which would be relevant for the case company and T3 is for locally available sale-to-order selection products.

Alko has a large selection of different dessert wines, however, at the moment they sell only one kind of Canadian ice wine, which is only available in a handful of brick-and-mortar stores in whole Finland, and to order online. (Alko, 2021)

3 Import process

3.1 Phases and stakeholders in the importing process

The main phases that are involved in the importing process are supplier selection, defining the trade conditions, freight forwarder selection, arranging transportation, insuring, and packing the goods. Once the goods are due to depart from the export country, next phases are export customs declaration and shipping the goods, gathering the relevant documents for the import process, import customs declaration, paying for applicable duties and taxes, delivering the goods to their final destination and finally paying for invoices. The parties and stakeholders which are involved in these phases are the supplier, buyer, freight forwarder, carrier, the customs. In addition, there could be some subcontractors such as trucking companies involved.

After the most suitable supplier is selected the contract of sales is signed and the trading partner parties must agree on the trade conditions. This includes drawing up the trading contract, defining the Incoterm, and the payment terms. According to Gheorghiu (2019), payment terms indicate how and when the payment of the invoice should be made. Payment terms can include the due date, currency, the amount of late payment fees, and other terms such as how the seller wants to receive the payment, and possible discounts. (Gheorghiu, 2019).

Either the exporter, the importer or the freight forwarder proceeds to arrange the transportation. This includes arranging the collection of the shipment by truck and booking the shipment to the ocean carrier.

Cargo insurance helps to protect the goods in the case of damage, loss or even theft during the transportation. Freight forwarders and carriers are only limitedly liable for the goods. Cargo insurance compensates the value of the goods based on the commercial invoice and the transportation costs as well. In addition to damage and theft of the goods, cargo insurance can also compensate the costs generated from delays. (DSV, n.d.) Cargo insurance documentation is also a prerequisite for the import customs clearance in EU.

The exporter packs the goods in an appropriate way to avoid damage of the bottles. The packaging of wine is discussed further in chapter 4.

After insuring and securely packaging the goods, either the exporter or the freight forwarder proceeds to complete the export customs declaration. After the customs authorities have cleared the goods for export, the goods are free to sail from the country of export.

After the truck has delivered the goods to the port of loading, they are shipped on board the nominated vessel. The geographical place of the shipper defines which is the best alternative for the port of loading. The maritime transport transit time from for example from the port of Montreal to the port of Helsinki according to MSC Mediterranean Shipping Company is from 17 to 22 days. The transshipment to the Baltic feeder is in Antwerp. (MSC, 2021) This transit time is for FCL shipment, according to Kuehne + Nagel the transit time for LCL is 29 days with also transshipment in Antwerp. (Kuehne + Nagel, 2021) This is an estimation from the carriers and delays are always possible.

Well before the goods arrive to Finland, the importer must gather all the necessary documents for import customs declaration listed in the next section. The carrier or the freight forwarder will issue the bill of lading once they have confirmed that goods are shipped on board. The country-of-origin document,

commercial invoice and the packing list will be received from the exporter. Other documents and forms are the importer's responsibility.

Either the importer or the freight forwarder on behalf of the importer completes the import customs declaration and presents the required documents to the customs authorities. Once the customs authorities have cleared the imported goods, the goods are released to the importer and for free circulation. Release for free circulation is according to the Finnish Customs (2021) the most common customs procedure for imports. It means that the goods imported from outside the EU will get the customs status of Union goods once they are released for free circulation, and then the goods can be sold inside the EU. The goods are also "subject to trade policy measures, and customs duties based on the law are levied on them." (Tulli, 2021 B)

The customs authorities send the customs clearance decision as "an invoice with which the importer pays the customs duties, taxes and charges levied." (Tulli, 2021 A) The importer must pay the charges in accordance with the invoice from the customs. In addition, the importer might face additional charges and these charges are dependent on whether the commodity of the goods are subject to excise duties. Alcohol is subject to excise duties, and the amount of excise duties are determined by the type of the beverage and the amount of ethyl alcohol that is in the beverage. For ice wine, the excise duty would be calculated by 421.00 cents/litre of alcoholic beverage. In Finland, the importer can pay excise duties in the Tax Administration system. (Verohallinto, 2022). The imported goods are also subject to value added tax (VAT) which in Finland the VAT for alcohol is 24%. The VAT within importation is collected by the Tax Administration. (Tulli, 2021 A) According to Finnish Customs, importers that are registered VAT payers, must inform the Tax Administration on their own initiative of the import.

Since the goods are released into free circulation at this point, the importer or the freight forwarder can arrange the delivery of the goods to the designated final destination, probably the importer's premises by truck.

The final task for the importer to complete, is to post payments for invoices related to the whole import process. In addition to the invoice for duties and taxes, these invoices may include the actual commercial invoice of the goods, the invoices for the different transportations and the ocean carriage and the invoice from the freight forwarder for their services. The importer can also pay for the transportations to the freight forwarder since the carriers and service providers bill them.

3.2 Role of freight forwarders

A freight forwarder acts as an intermediary who makes the transportation arrangements between an exporter and an importer. Freight forwarders use their connections and long-term relationships with the carriers and other service providers to get the shortest routing and they negotiate the best rates as possible. Freight forwarders can also handle all kinds of shipments, including special cargo such as dangerous goods, temperature-controlled shipments, and high value cargo. In addition to coordinating international shipments, their services also can include transport tracking, customs brokerage, shipment documentation, cargo insurance, warehousing and repacking. Freight forwarders are always up to date with countries' local regulations and legislation because they are constantly trained. In addition, they are prepared to handle any kinds of problems that may occur in the cargo's journey. (Logitude World, 2019)

Figure 3 illustrates global freight forwarders' gross revenue and freight volumes in the year 2020. Armstrong & Associates listed top 25 global freight forwarders. DHL Supply Chain & Global Forwarding had the highest gross profit. Kuehne + Nagel had the second highest, DB Schenker after that, and the fourth and the fifth highest gross revenue had DSV Panalpina and Sinotrans.

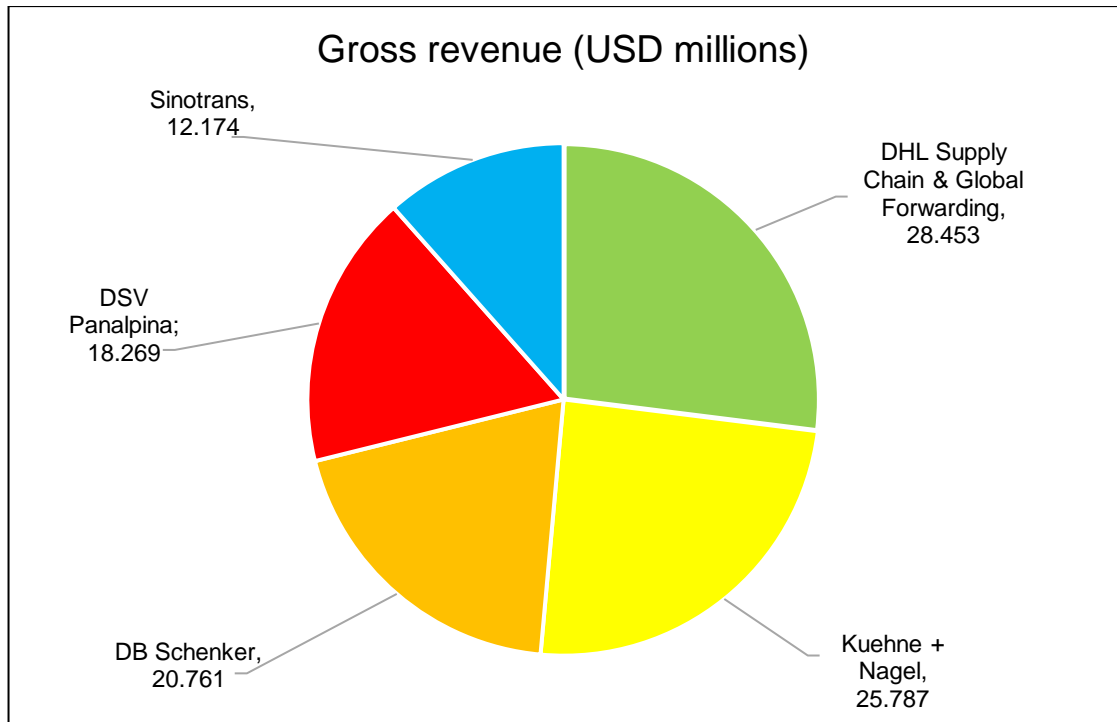


Figure 3: Top 5 global freight forwarders 2020 gross revenue/turnover (Armstrong & Associates. 2021)

In ocean freight, volumes are measured in TEU's (twenty-foot equivalent unit). In practice, one 20-foot container equals to one TEU. (Flexport, 2021). As shown in figure 4, Kuehne + Nagel had the highest number of ocean TEU's in 2020.

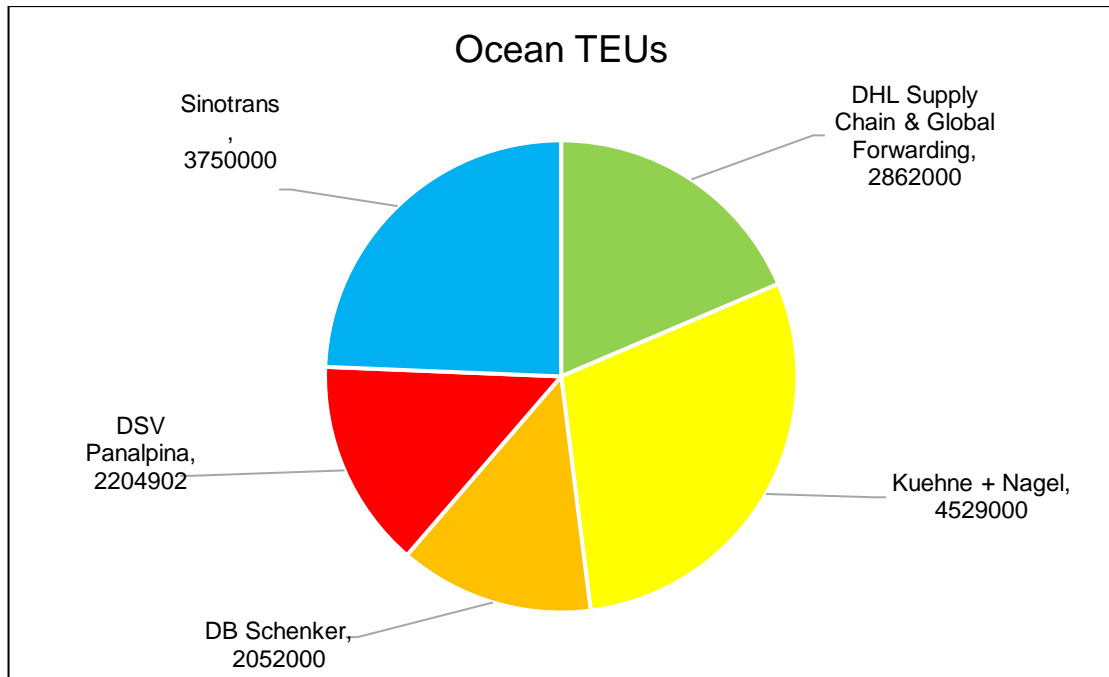


Figure 4: Top 5 global freight forwarders 2020 ocean TEUs (Armstrong & Associates. 2021)

Since there are multiple freight forwarders to choose from nowadays, the importer should consider some key factors when choosing the freight forwarder. Since the freight forwarder's skills, capability, and delivery of services differ a lot, the selection criterion can include all different kinds aspects, for example rating, the standards of documentation, carrier selection, packaging, insurance, warehousing, electronic data interchange (EDI). In addition, knowledge of the product, logistics consulting, customs clearance, labelling, rate negotiation, export compliance management and in-house education and training. (Cook et. al. 2004: 9)

There are numerous amounts of criterion that the company should use in selecting the freight forwarder and it could be a long process as well. What the importer could also use to help in selecting the freight is to rely on referrals and recommendations from for instance carriers or other exporting or importing companies. (Cook et. al. 2004: 9).

3.3 Freight forwarder contract and SLA

After the importer has chosen the most suitable freight forwarder, they need to define and negotiate a contract with the freight forwarder. The contract can include the quotation prices, however, since the shipping costs are now volatile, it is recommended to update the quotation frequently. What the freight forwarding contract normally defines is all the different charges and costs the freight forwarder is going to bill from the company.

Cook et. al. (2004: 11) list following domestic costs related to the shipping process; warehousing, inland freight and loading charges, shipping and documentation charges most commonly related to export declaration and to documents like certificate of origin and bill of lading. In addition, there are banking and finance costs like costs of letter of credit and freight forwarding and insurance fees. There might also be miscellaneous costs and value-added service costs. These value-added services might be for example capability to handle hazardous materials, export packaging and additional documentation. All of the costs should be explained by the salespeople of the freight forwarder company, with whom the contracts are usually made. It should also be transparent what costs the freight forwarder is billing from the customer.

The freight forwarder contract should also clearly indicate the performance standards which the company wants the freight forwarder to follow. These standards could include what the company as a customer expects as well as the freight forwarder's already existing KPI's (key performance indicators). In other words, the two parties can create a service level agreement (SLA) as a part of the contract. SLA is the part of a contract which defines exactly what kinds of services a service provider will provide and what kind of level or standard the service provider has for those services. The main elements of an SLA are overall objects, description of the services, performance standards, compensation/service credits and critical failure. If the service provider fails on a deliverable, the SLA should indicate the amount that the service provider should

credit or compensate the customer and this service credit acts as an incentive to improve performance in the future. (Cordall, 2012)

4 International transportation and logistics

4.1 Shipping modes

The different transportation options for shipping cargo internationally are rail, air, maritime and truck transportation. Maritime transportation is commonly combined with a truck and rail transportation. The combination of the different modes of transportation is called multimodal transport. In multimodal transportation, the cargo will fall only under one contract and is handled by a single carrier or freight forwarder, even though there are multiple modes on transportation. Maritime transportation is mainly shipped as multimodal because the cargo requires at least truck transportation and handling in addition to the actual sea transportation. The cargo will also fall under one bill of lading. According to Frese (2019), multimodal shipping minimises the documentation because there are less freight documents involved. The carrier or the freight forwarder is responsible for the coordination of the different transport modes, and they are also liable for the cargo for its whole journey. Multimodal shipping allows the cargo to be handled in different ways which is necessary. (Miashkova, 2021).

Cargo can also be shipped as intermodal transportation. In intermodal shipping, the cargo will move in one container and it cannot be handled in other ways, and there will be individual contracts for each mode of transportation. Intermodal shipping requires a lot more coordination and negotiation with multiple different carriers. A benefit of intermodal shipping is that the overall costs might be lower than in multimodal shipping. Intermodal shipping allows the shipper to negotiate more beneficial rates with the different carriers for each transportation leg, because in multimodal shipping the shipper will rely on the single carrier and their selling rates. Other benefits of the intermodal shipping

for the shipper are that the cargo can be tracked more accurately, and shipper can optimise the delivery times by carrier selection. (Frese, 2019)

4.2 FCL and LCL shipping

There are different types that can be used when shipping by maritime transport. The cargo can be containerized in two different modes, full container load (FCL) or less than container load (LCL). FCL mode is for shipments that have higher weight and volume that will fill the capacity of the container and the shipper contracts the full container space whereas LCL is for smaller shipments which are consolidated to a container with other shipments fill the container space. (Rushton et.al., 2017:605). Figure 5 illustrates the difference between FCL and LCL shipping.

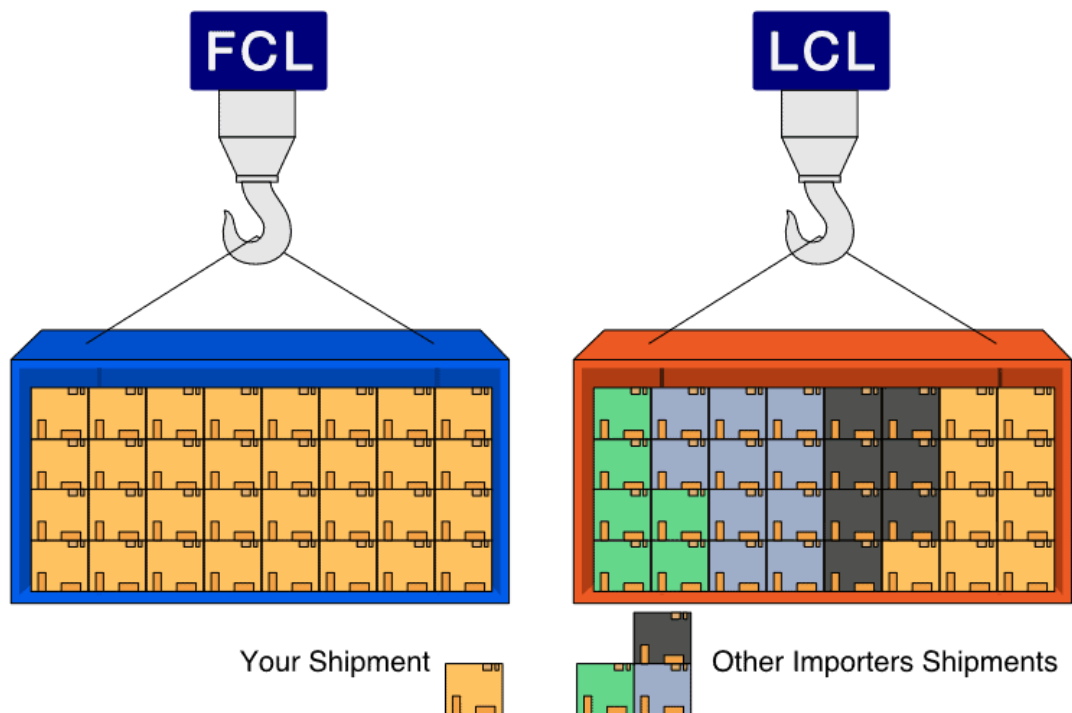


Figure 5: Full Container Load vs. Less than Container Load: the Difference in Shipping (Guided Imports, 2020)

In FCL shipping, the carriers contract the containers. After the shipment is booked to the carrier, the ocean carrier chooses the routing and they can choose whether to use their own vessel or collaborate in sharing the capacity

with other carrier's vessels. (Manners-Bell, 2017:200) The carrier will release the empty container to the shipper's transport company who will move the empty container to the shipper's premises. The container is stuffed and the full container will be delivered to the port of loading. At the destination, the consignee's transport company delivers the full container to the cargo's final destination where the container is unloaded. Finally, the transport company delivers the empty container back to the carrier. In FCL shipping, even though the shipper contracts the whole container space, the cargo does not have to fill the whole capacity of the container. One of the benefits of the FCL shipping is that is safer for the cargo, because there will be less handling of the actual goods. Another benefit is that FCL shipping is faster also due to the less handling it requires. (Guided Imports, 2020)

There are different sizes and types of containers. The sizes of containers are acknowledged in feet. General cargo can be shipped in a general purpose or standard container, which have three sizes: 20-foot, 40-foot, and 40-foot-high cube. The capacities in volumes for these three sizes are approximately 33 m³, 68 m³, and 76 m³. A 20-foot container can fit 6 standard pallets, and a 40-foot container can fit 12 pallets. (Kuehne + Nagel, 2021) Figure 6 shows an example of a general-purpose container and its basic characteristics. The container clearly shows its number and the check digit, which is the last digit of the number, weight specifications, ISO code and related certificates. Containers also might have repair recommendations. After stuffing, the container is sealed. (Frese, 2019)

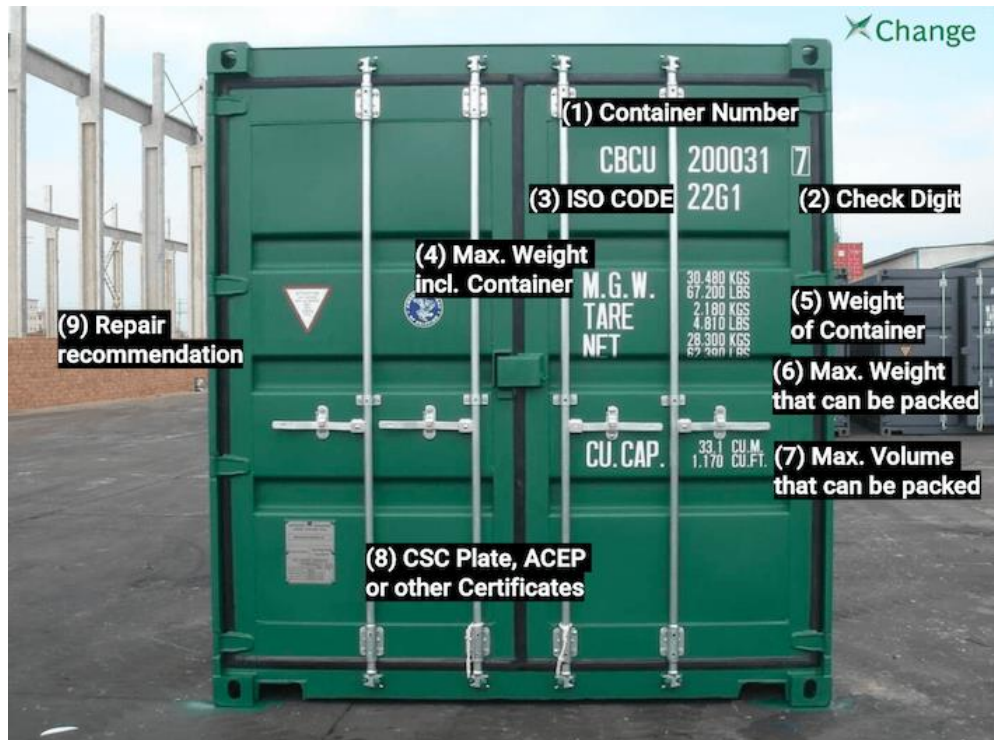


Figure 6: Container characteristics (Container Xchange, 2019)

Open top containers are best suited for cargo that are high (overheight) because it can be loaded from the top of the container. Flat rack containers are best for oversized and heavy cargo. Further special types of containers are refrigerated (reefer) containers, platform, ventilated, hard top, insulated or flexi tank containers which are aimed at transporting liquids in bulk. (Kuehne + Nagel, 2021).

The container mode should be chosen by the nature and the measurements of the cargo while assessing the costs and the benefits of the two modes. Wine bottles can be shipped in either of the modes. However, in FCL shipping, the cargo is protected by the container itself According to Rushton et.al. (2017: 605), freight forwarders can offer an additional service where they block and brace the cargo inside the container to avoid the cargo and damaging during transportation. This should also be considered when deciding the container mode for wine. Chapter 4.4 describes in more detail how to package wine for international transport for both container modes.

4.3 Freight tariffs and other transportation costs

After identifying the different transportation alternatives, it is essential to investigate the costs and benefits of the different alternatives as well. The total shipping costs are highly dependent on the shipping lines tariffs, which are basically prices of the ocean freight determined by the shipping lines. In the very volatile market that the ocean freight is in today's world, the tariffs of the different shipping can vary drastically.

The Covid-19 (coronavirus) pandemic has had measurable impacts on the supply chains and logistics networks as well. The shipping tariffs have increased, in Shin's words "skyrocketed", due to the Covid-19 pandemic and the sudden high demand in commodities like as medical equipment and home office and computer supplies which are imported mainly from China, and this created an imbalance in the global trade. The imbalance was caused mainly because China's market had been on suspension for months and then when suddenly they started "exporting approximately three containers for every one imported." The aftermath has been chaotic because shipping lines are still facing delays and backlogs due to labour challenges, limited capacity, and resources in logistics systems. Due to the container imbalance, China is unable to meet the high demand of available containers and turnaround times in Chinese factories are rising. The critical situation in China, and in overall Far East has resulted in premium rates in tariffs now globally and shipping lines are trying to expedite the return of containers to the Far East. (Shin, 2021).

Some shipping lines have lower tariffs; however, the quality of the service might not reach the shipping lines that have higher tariffs. There might be more limited cargo space so the spaces might not be guaranteed, as well as delays in shipments. The tariffs also affect the quote that the freight forwarder offers, the higher the tariffs, the higher the total amount of the quote will be. It is obvious that the freight forwarder needs to add some additional costs to the quotations in order to gain gross profit. This means that the costs are higher, however, the

benefits are worthy. Using a freight forwarder eases the company's burden with the logistics arrangements.

4.4 Packaging wines for international transport

Michael Jurczak (2019) has instructions and advice on how to especially pack the shipment in the best way so that it protects the cargo. According to Jurczak, wine and spirits are typically palletized in Europe, and the boxes or packages in which the bottles are packed there are holes for the bottles as well as room for some cushioning material. Jurczak suggests that the most secure way to transport especially expensive wine bottles that are made from glass is to use insulated food containers. He also explains the methods that the freight forwarding companies use to control the temperature of the cargo. Most ocean carriers offer refrigerated containers, however, there is an advanced solution for smaller shipments as well. Jurczak explains that JF Hillebrand has developed a thermostatic film which they call VinLiner. In addition to general containers, this thermal insulation film can also be installed inside smaller packages. The film is available different sizes. This makes VinLiner more flexible alternative to refrigerated containers. The freight and operations manager Izabela Dąbrowska at JF Hillebrand explains the VinLiner further:

“This is a thermostatic film that reduces the thermal effects of radiation, conduction and convection. It minimises condensation and water leaks and provides protection against pollution and odours. It also reduces numerous environmental threats, allowing to retain qualitative indicators in 100%.” (Dąbrowska, Jurczak, 2019)

In addition, Rediehs (2016) emphasizes the importance of packaging to the secure shipment of cargo and choosing the right freight forwarding company. Since the glass bottles are so vulnerable to damage, he suggests using different kinds of materials to protect the bottles from shattering such as bubble wrap or even peanuts. Figures 7 and 8 provide examples of how wine bottles can be packaged and palletized.



Figure 7: Packaging: The Complete Guide (Bennett, nd.)



Figure 8: Packaging wine bottles (A Better Trip, 2019)

Wine bottles can be packed in boxes that have individual compartments for them, stuffed with the material of choosing and the boxes can be palletized onto a wooden pallet. (Rediehs, 2016)

5 Terms of Contract of sale - Incoterms

All starts from the contract of sale which is a contract between the seller and the buyer clearly defining several matters that are related to the shipment. The contract defines matters such as the characteristics of the goods and the price, the payment terms, and the details of the delivery of the goods. The payment terms can define for example the period of time in which the payment must be posted to the seller, the currency, the payment method and the handling of overdue payments. The delivery terms define the obligations of the seller and the buyer and the contract of carriage. (World of Logistics, 2020).

According to the International Chamber of Commerce (2020), the Incoterms rules are the world's essential terms of trade for the sale of goods. Incoterms are in an integral role in the global trade since they are universal and "providing clarity and predictability to business." The Incoterms term comes from the words international commercial terms. The Incoterms were updated and implemented in the year 2020.

"Trade terms are necessary elements of a properly drafted international sale contract because they notify the buyer what is "included" in the sales price as regards transport costs, risk of loss or damage, insurance responsibilities and import customs duties." (Jimenez, 2018:36)

When the seller and the buyer are outlining the trade contract, they decide on which Incoterm they are going to apply, and they must follow the custom of trade that the chosen Incoterm defines. In other words, the seller and the buyer must follow the 'rules' that the chosen Incoterm defines. The Incoterms define following factors; delivery and receiving the shipment, division of costs, transfer of risk and other mutual obligations. The Incoterms indicated in the contract of sale follow the same structure, the abbreviation of the term and a named

location. The only parties that are involved in the contract of trade are the seller and the buyer, which means that all subcontractors such as vendors and service providers act on behalf of the seller or the buyer. (World of Logistics, 2022)

The Incoterms include eleven terms, which are abbreviated to three-letter terms. The complete list of the Incoterms 2020 below shows the abbreviations and the complete name of the term. FAS, FOB, CFR, and CIF terms are only to be used in ocean freight transport. The rest of the terms can be used in every mode of transport. (World of Logistics, 2022)

- EXW Ex Works
- FCA Free Carrier
- CPT Carriage Paid To
- CIP Carriage and Insurance Paid to
- DAP Delivered At Place
- DPU Delivered at Place Unloaded
- DDP Delivered Duty Paid
- FAS Free Alongside Ship
- FOB Free On Board
- CFR Cost and Freight
- CIF Cost, Insurance and Freight

Each Incoterms defines the risk and the costs for both parties, the seller and the buyer. What the term transfer of risk means is that each term defines the point in which phase of the delivery of the goods the risk transfers from the seller to the buyer. For instance, in the case of damage or loss of the goods, the chosen term will define which party is responsible to bear the risks. In addition to the transfer of risk, the Incoterms define the division of costs each party will be obligated to pay. CIP and CIF terms also define which party has to arrange and pay the freight insurance. In figures 9 - 13 some examples of those Incoterms that could be relevant to the importer of wine are illustrated in terms of the transfer of risk and division of costs. (World of Logistics, 2022)

EXW – Ex Works

According to the EXW term, the buyer bears most of the risks and costs. The seller's obligation is mainly to arrange so that the goods are at the buyer's disposal at the named place, usually at the seller's premises. The risk is transferred at this point to the buyer. In addition to carrying out the export and import formalities, the buyer arranges and pays the loading and pick up of the goods all the way to the unloading and the final delivery of the goods at the buyer's premises. This term is recommended to suits the best domestic or similar transportations. (World of Logistics, 2022) However, according to DHL Global Forwarding (2022), it is also frequently used in ocean freight transportation.

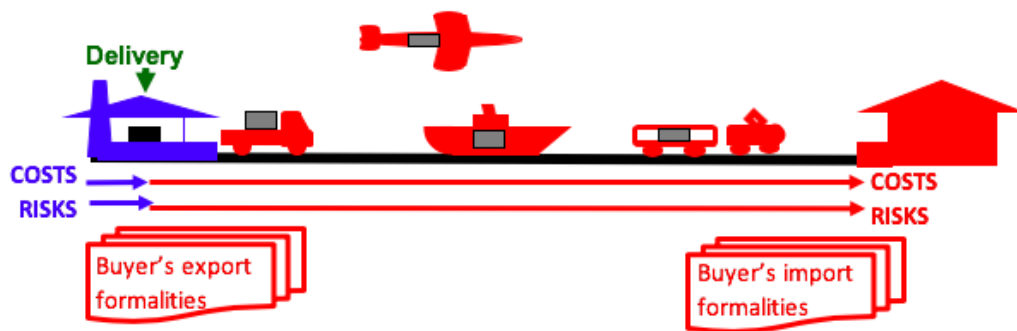


Figure 9: EXW (named place) Incoterms 2020 (World of Logistics, 2022)

FCA - Free Carrier

In the FCA terms, the seller's obligations are to either load the goods in the seller's premises on the vehicle picking up the goods which the buyer has arranged or to the goods at a named place for instance the buyer's export carrier terminal. In addition, the seller is responsible for the export formalities and the related costs. The risk is transferred once the goods are loaded to the buyer's disposal. (World of Logistics, 2022)

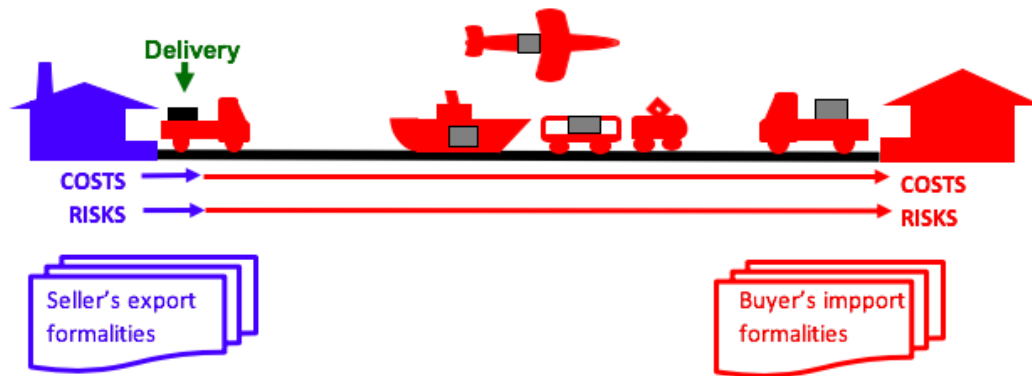


Figure 10: FCA (named place of delivery) the Incoterms 2020 (World of Logistics, 2022)

FOB – Free on Board

FOB term can be used “only in case of transport by sea or inland waterways, i.e. from port to port.” (World of logistics, 2020). The seller is responsible to deliver the goods until the named port of loading. The risks and costs are transferred to the buyer once the goods are shipped on board.

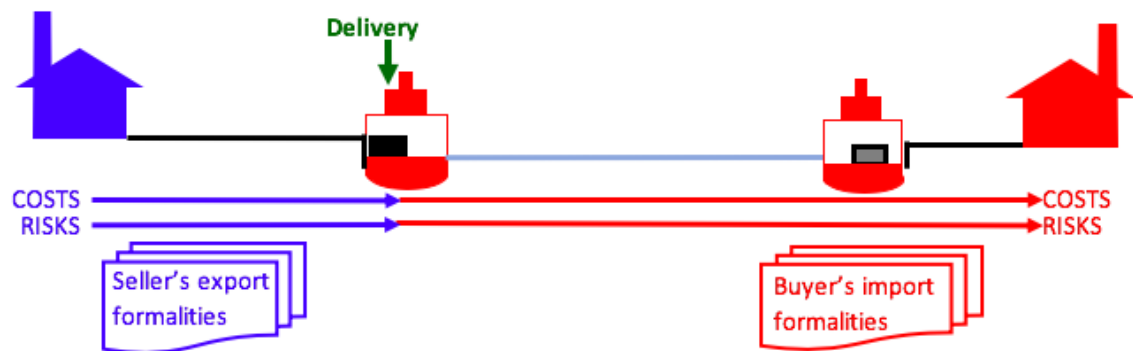


Figure 11: FOB (named port of shipment) Incoterms 2020 (World of Logistics, 2022)

CPT - Carriage Paid To

This term can be used in any mode of transportation, and it is suitable for especially container traffic. In the CPT term, the seller delivers the goods to the named place of delivery to the carrier at the place of loading. The buyer bears the risks from then on and is responsible for the costs of discharge and delivery,

but the seller contracts for the carriage with their chosen carrier and pays for the freight. In the case of loss or damage, the buyer is responsible for making the insurance claims because they bear the risks even though the seller contracts the carriage. (World of Logistics, 2022)

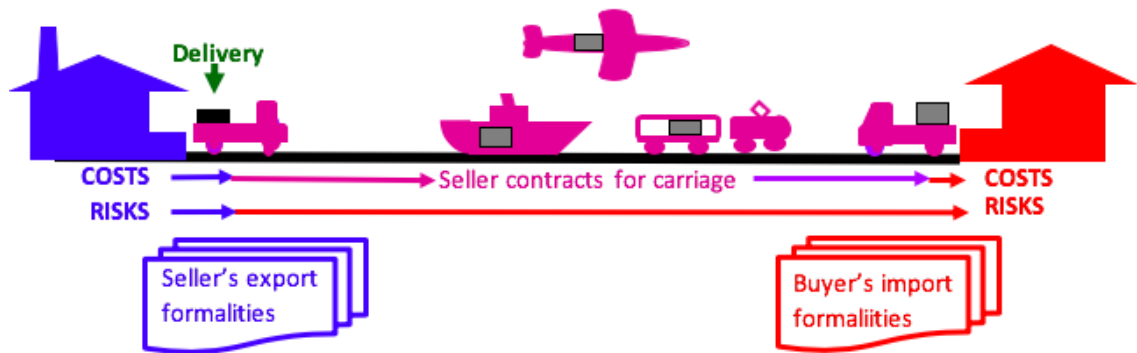


Figure 12: CPT (named place of destination) Incoterms 2020 (World of Logistics, 2022)

The CIP (carriage and insurance paid to) term is also to be used in any mode of transportation. Otherwise, the term is similar to CPT, except that in addition the seller contracts and pays for the freight insurance. The costs, obligations and the transfer of risk are the same as according to the CPT term. (World of Logistics, 2022)

DAP – Delivered at Place

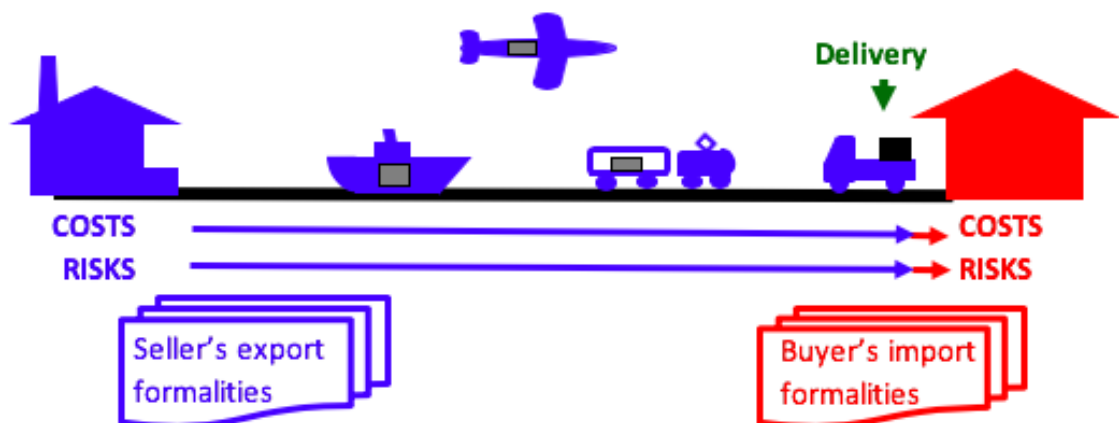


Figure 13: DAP (named place of delivery) Incoterms 2020 (World of Logistics, 2022)

The DAP term belongs to the D-group in which the seller bears most of the risk and costs. In this term, the seller is obligated to arrange the delivery and carriage of the goods to a named place at the destination, it can be also the buyer's premises so that the goods are at the buyer's disposal. The seller pays the costs related to export formalities and the transportation. After the goods are delivered at the named place, the risk is transferred to the buyer. In addition, the buyer carries out the import formalities. (World of Logistics, 2022)

DDP (Delivered Duty Paid) term also belongs in the D-group. It also similar to DAP term, except that the buyer is obligated to pay for all the costs related to import formalities as well. The costs also include the duty and taxes. (World of Logistics, 2022)

6 Customs clearance and documentation

6.1 Import customs clearance in Finland

The import customs procedures will be done in the Finnish Customs. To be able to declare any goods, a trading company must have an EORI number. EORI stands for "Economic Operators Registration and Identification number" which is "an identification number in all customs procedures when exchanging information with Customs administrations." (European Commission, n.d.)

Another prerequisite for the customs declaration is that the importer is required to declare a commodity code for the goods. The commodity code determines how much customs duties and other charges the importer must pay and it also might determine what kinds of restrictions apply for the goods. Therefore, it is highly important that the commodity code is correct, for the importer to avoid any excess taxes. (Tulli, 2021 D) The commodity code for the goods can be found in a nomenclature. There are three types of nomenclatures: the Harmonized System nomenclature (HS), tariff and statistical nomenclature also known as the combined nomenclature (CN), and TARIC nomenclature. The HS system is the basis for the CN and TARIC nomenclatures. The TARIC

nomenclature is used for imports to the EU and trading companies can search the correct commodity from the TARIC database. The TARIC nomenclature includes:

“10-digit subheadings, provisions and customs duties of the combined nomenclature, preferential tariffs, anti-dumping duties, EU restrictions, provisions and prohibitions relating to import and export and footnotes.” (Tulli, 2021 E)

In figure 14 you can see an example from the TARIC database which shows as an example of commodity codes for wines.

TARIC measure information <small>[Show all information]</small>		The reference date is 09-11-2021 Last TARIC update: 08-11-2021
Goods nomenclature code: 22042180		
Measure type:		
Order number:		
Measure publication start date must be after:		
Measure publication start date must be before:		
Legal base:		
1 - 2 / 2		
SECTION IV PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES		
CHAPTER 22 BEVERAGES, SPIRITS AND VINEGAR		
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading 2009 : <small>(TN701)</small>	
2204 10	- Sparkling wine :	
	- Other wine; grape must with fermentation prevented or arrested by the addition of alcohol :	
2204 21	- - In containers holding 2 litres or less :	
	- - - Wine, other than that referred to in subheading 2204 10, in bottles with 'mushroom' stoppers held in place by ties or fastenings; wine, otherwise put up, with an excess pressure due to carbon dioxide in solution of not less than 1 bar but less than 3 bar, measured at a temperature of 20 °C :	
	- - - Other :	
	- - - - Produced in the European Union :	
	- - - - - Of an actual alcoholic strength by volume not exceeding 15 % vol :	
	- - - - - Wine with a protected geographical indication (PGI) :	
2204 21 79	- - - - - White :	
2204 21 80	- - - - - Other :	
2204 21 80 10 ▼	- - - - - Of an actual alcoholic strength by volume not exceeding 13 % vol	
2204 21 80 90 ▼	- - - - - Of an actual alcoholic strength by volume exceeding 13 % vol but not exceeding 15 % vol	

Figure 14: TARIC measure information (European Commission, 2021)

6.2 Single administrative declaration (SAD)

The importer must complete a single administrative declaration (SAD) to the customs authorities. The declaration can be presented electronically in a computerised system which is linked to the local customs authorities or by

lodging the declaration in customs office premises. Information must be declared in SAD as follows (European Commission, n.d.):

- Identifying data of the parties involved in the operation (importer, exporter, representative)
- Custom approved treatment (i.e. release for free circulation)
- Identifying data of the goods (Taric code, weight, units), location and packaging
- Information referred to the means of transport
- Data about the country of origin, country of export and destination
- Commercial and financial information (Incoterms, invoice value, invoice currency, exchange rate, etc.)
- List of documents associated to the SAD (import licenses, inspection certificates, document of origin, commercial invoice, etc.)
- Declaration and method of payment of import taxes (tariff duties, VAT, excises)

Entry summary declaration (ENS)

The purpose of the entry summary declaration is that the customs can perform a risk analysis on the imported goods since the ENS contains advanced information about the goods. The carrier of the imported goods must lodge the ENS at the first customs office entering EU. There are deadlines for lodging in the ENS which depend on the mode of transport. For maritime transport, the ENS must be lodged at least 24 hours before loading the goods in the foreign port for containerized cargo. For bulk cargo, the deadline is at least four hours before arrival, and for shorter maritime shipping the deadline is at least two hours before arrival. (European Commission, n.d.)

6.3 Documentation

In this chapter the main documentation which is relevant in the importing process is described shortly.

Commercial invoice

The commercial invoice is issued by the exporter once the goods are available. It is an evidence or record of a transaction which includes basic information. The commercial invoice is always required for the customs clearance. The commercial invoice must include following information which are defined by the European Commission (nd.).

- information on the exporter and importer
- date of issue
- description of the goods
- unit of measure
- quantity of goods
- unit value
- total item value
- total invoice value and currency of payment
- the terms of payment
- the terms of delivery according to the appropriate Incoterm
- means of transport

It is also recommended that the commercial invoice indicates the correct commodity code of the goods and the origin country, since that is necessary information in the customs declaration. (European Commission, n.d)

Customs value declaration

This is a form which should be submitted to the customs authorities if the value of the imported goods exceeds 20 000 euros. The main purpose of this is to evaluate the value of the transaction in order to fix the customs or taxable value to apply the tariff duties. (European Commission, n.d.)

Certificate of origin

This is an international trade document that states where the goods were manufactured. Basically, it certifies the 'nationality' of the goods. The certificate

of origin also helps determine the amount of customs duties, and whether the goods are eligible for import. There are two types of COs – Non-preferential COs and Preferential COs. The non-preferential CO is considered to be the normal CO which chambers of commerce issue. It certifies that the goods are not subject to preferential treatment. The preferential CO certifies that the goods are subject to reduced or zero duties. (ICC, 2021)

Bill of lading

Bill of lading is a legal document that indicates the shipment details and acts as a shipment receipt when the carrier has shipped the goods on board. In addition, the bill of lading acts as a contract of carriage to deliver the goods to a nominated place. The bill of lading is a negotiable document unless it states otherwise. If the bill of lading is negotiable, the goods can be sold or bought during its voyage. In that situation, the bill of lading can be used as a title to the goods and hence the person who legally bears the bill of lading is the owner of the goods. (Rushton et.al., 2017:455). Bill of lading is issued by the carrier or the freight forwarder. There are two types of bills of lading in ocean freight, house bill of lading which is issued by the freight forwarder, and master bill of lading which is issued by the carrier. (ICE Cargo, 2019) Examples of both types of bills of lading are in appendices 1 & 2.

Cargo insurance

The insurance invoice must be presented to the customs authorities only if the insurance information in the case it is not indicated in any way in the commercial invoice. (European Commission, n.d.)

Packing list

Packing list accompanies the commercial invoice and other transport documents. It includes the information and packing details of the goods. The exporter prepares the packing and the original and at least one copy of it has to be submitted to the customs. (European Commission, n.d.)

7 Results of benchmarking Tampereen viinitukku Oy

This chapter is based on the interview with the CEO of a Finnish wine importer, Tampereen viinitukku Oy (Tampere Wine Wholesale Ltd) on 16th of March 2022. The company is based in Tampere. Mr. Marko Horto has been the CEO of the company from the year of 2009. We started with discussing about the history of the company. The company started as a family company and was founded in the year 1995. Until then, Alko was the only supplier that was allowed to wholesale alcohol to restaurants. Since then, the company has grown, and they now have nationwide operations. The interview questions can be found in the appendix 1.

According to Mr. Horto, they import wine from the common wine countries, with an addition to some unfamiliar ones. The company has over two hundred producers in different countries. The regions which they import from are Europe, Africa, North and South America and Oceania. The most common ones for the company are France, Italy and Germany. There are differences in the importing processes between the two, but the company uses freight forwarder's services for imports outside the EU. The major differences are that first of all every shipment that comes from outside the EU must be declared. The company does not have that many shipments from outside the EU, because many of their supplier overseas have warehouses or distribution centres in the EU. The second difference is that for all imports inside the EU, they can utilise the Excise Movement and Control System (EMCS). The EMCS is "an electronic system for controlling movements of products subject to harmonized excise duty in the EU, i.e., alcohol, alcoholic beverages, tobacco and liquid energy products." (Verohallinto, 2021).

Mr. Horto reasoned that the imports from inside the EU are much simpler, because of the EMCS system and they can use it for resource management. The goods are simply delivered from the producers to the company, and they can just cross it off in the EMCS system once the goods have arrived.

According to Mr. Horto, they only use sea and road transportation, and the majority of their shipments are transported by road. Their goods arrive as LCL shipments in sea transportation, and roughly once a year they might have a FCL shipment of a 20-foot general cargo container. They do not use any equipment specialised for alcohol shipments. Because of the current issues related to ocean freight, such as the increase of tariffs, the company is aiming for using ocean freight less and favour more suppliers which can deliver inside the EU. We also discussed about the Incoterms that they use and why. The company used mainly FCA and FOB Incoterm in the EU, and EXW for import from regions outside the EU. The reasons are mainly because they always use a freight forwarder in the shipments imported outside of the EU. In addition, the pricing and the producers' requirements have an effect on which Incoterms they use. The costs and the risks related to the Incoterms were demonstrated in chapter 5. As the buyer, they mainly bare most of the risks and costs themselves. They very rarely use terms from the D-group.

I also asked what kind of problems they have faced as an importer. According to Mr. Horto, in the past there were challenges due to the lack of digitalization and they had to handle original documents all the time. In addition, they still have language barrier problems in for example France with especially small producers. The producers might only communicate with French, but luckily the company has a salesman who knows eight different languages, so he is able to communicate with everyone. However, this might be a problem for other companies which do not have an employee who speaks the producer's native language. The perhaps main problem of importing wine is theft, which was surprising personally. Mr. Horto said that they have several cases of theft, and for some people wine bottles are very valuable or they steal for their own consumption. This is where cargo insurance plays a significant role and the company make claims for insurance companies on a weekly basis. The company invests a lot in their cargo insurance because sometimes they might lose hundreds of bottles due to theft.

Mr. Horto explained that as an importer they have been profiled as a service provider for fine dining restaurants and they wholesale to Alko and to some cruise shipping lined as well. However, Alko sales are only 10% of their total revenue. The company has salespeople who maintain their customer relationships and they also try to seek out new customers by finding new restaurants which have just received their alcohol license. Also, the new restaurant owners nowadays might reach out to the company by themselves wanting to collaborate with them. The company has their own warehouse in Tampere, and they distribute to their customers all over Finland by using subcontractors.

8 Conclusions

Based on the theory and the results of the interview my first conclusion is that the Base On Wines company should use a freight forwarder who will also handle the customs declaration. Since the company is an inexperienced importer, a freight forwarder will be able to support and help the company a lot and it will save the company the trouble of handling the coordination and freight documentation as well as contracting carriers themselves. It depends on the company which freight forwarder they want to use but my recommendation is to ask quotations from several different freight forwarding companies. What the company should take into consideration besides the buying rates is that the freight forwarder should have a good network in Canada and they should also have experience in the export processes in Canada as well as of the import processes of alcohol to EU and Finland especially.

In the beginning at least and depending on the demand, the company might not want to import a full container load of wine and therefore a LCL shipment and a freight forwarder option would be the most suitable. What comes to the inland transportations the costs would be lower if the company arranges the collection and the delivery by itself because that way they can save the additional handling charged of the freight forwarder. On the other hand, the freight forwarders have the resources to arrange transportation and help with the

documentation and customs more effectively. In a nutshell, by getting the full package, the door-to-door delivery, from the freight forwarder the costs are higher, but benefits are greater when the importer is a small company not experience in importing from outside the EU.

There are several alternatives for the company regarding the sales channels. As an importer, the company can reach out to suitable restaurants and sell directly to them. Perhaps, specific fine dining restaurants would be ideal customers for the company. Several fine-dining restaurants buy their wine directly from the importers in Finland instead of the retailing monopoly Alko Oy. In my opinion the easiest solution for the company is to try to get their product to Alko's offering and online sales since Alko has still a monopoly in sales and distribution of alcohol in Finland. In reference to chapter 2 Alko is open for collaboration even with smaller suppliers.

The company could also start expanding their business by reaching out to a more experienced importer and act as a third-party wine agent. In this role they merely make their suggestions for the importers and do not import themselves the products. In Finland, there are lots of different importers and wine marketing companies which mostly import generic wines. If any of these companies would be interested in collaboration, the ice wine would bring more diversity to their selection of products. This might help the company to market their product as well. For distribution, they could build or lease their own warehouse and like Tampereen viinitukku Oy, distribute to the customers by using subcontractors.

The trade terms like Incoterms agreed in the contract of sale play an important role in the whole importing process because they define multiple aspects which each party is responsible for. The Incoterm which the seller and the buyer choose in their contract of sale depends on which obligations and charges each party agrees to be responsible for. Some of the obligations such as loading or delivering the goods might be more convenient for the seller rather than the buyer to arrange. For example Tampereen viinitukku Oy uses mainly EXW term for shipments because it's the most convenient term for them since they use a

freight forwarder to make the transportation arrangements and they rarely import from outside the EU. It is good for the company to know the Incoterms thoroughly, however, it is difficult to point out which Incoterm would be the best for them to use because as said, it also depends on their supplier overseas. However, the less risk and obligations they have, the better for a small company even though it is most likely more costly.

Referring to the research question about the challenges of the import process of alcohol the high risk of theft is definitely one to be taken into consideration based on the results of the interview. Therefore, the company should be prepared to invest in cargo insurance. To obtain a reasonable cargo insurance, the company could tender different service providers to get the best possible coverage as well as suitable rates. Some other challenges that the company might face in the importing process might be related to the documentation and the customs declaration, since they are not familiar with all the requirements. Therefore it is good to use an experienced freight forwarder who has good network in Canada.

In my thesis I was able to discuss and find answers to the research questions defined and meet the objectives of the thesis. Base On Oy was provided a general description of the import process and formalities related to it. They were also given sales and distribution alternatives. In addition, some challenges that a wine importer might face were identified. What I as a researcher could have done better was to analyse the competitors and the dessert wine market in Finland more thoroughly to give the company a realistic view of their business idea and competition. To do this I could have interviewed Alko Oy about their suppliers and online sales of dessert wines. Also the export process and formalities in Canada could have been studied in case the company is interested in taking more responsibility and role in the import process since using EXW or FOB Incoterms gives them more flexibility to agree on the transportation and freight.

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Appendix

Interview questions

Interviewee: Mr. Marko Horto, the CEO of Tampere Wine Wholesale Ltd.

Time of the interview: 16th March, 2022

1. Please tell a little bit about the history of the company
2. How would you describe overall the importing process of wine?
3. Which transport mode do you use?
4. Which countries are you importing wine from?
5. What kind of suppliers do you have? (For instance small family companies, large exporters, etc.)
6. What kinds of obstacles have you faced as an importer, especially in the import process?
7. How does the importing differ in shipments that are from countries outside of European Union compared to shipment that are from EU countries?
8. Do you use a freight forwarder? If you do, which one and what kinds of services they offer you?
9. What kinds of customers do you have?
10. What is your distribution channel like? Do you distribute to your customers by yourself?