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IMPORTING TEXTILE AND APPAREL PRODUCTS FROM  
GUATEMALA TO FINLAND

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# TEKSTIILITUOTTEIDEN JA VAATTEIDEN MAAHANTUONTI GUATEMALASTA SUOMEEN

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Tämän opinnäytetyön tarkoituksena oli selvittää mitä asioita tulisi ottaa huomioon maahantuotaessa Guatemalasta Suomeen tekstiili- ja vaateteollisuuden tuotteita. Näkökulmina tälle tutkimukselle olivat viennin ja tuonnin edellytykset ja ehdot Guatemalassa ja Suomessa, sekä tekstiiliteollisuuden aiheuttamat erityiset vaatimukset ja standardit.

Tutkimus toteutettiin keräten ja analysoiden jo olemassa olevaa tietoa useista eri lähteistä. Lopulta tutkimustulosten pohjalta annettiin toimintasuosituksia. Tässä opinnäytetyössä teoriaosuuden aiheita olivat Guatemalan ja Suomen välisen kaupan edellytykset, tekstiiliteollisuuden asettamat vaatimukset, kauppasopimus, maahantuontiprosessi sekä tärkeimmät ulkomaankaupan asiakirjat. Teorian lisäksi jokaiseen kappaleeseen sisältyy käytännönläheistä tietoa tekstiilien maahantuontiprosessista Guatemalasta Suomeen. Lopullinen analyysi ja suositukset on esitelty viimeisessä kappaleessa, jossa on myös annettu fiktiivinen maahantuontikuvaus suositelluilla ehdoilla.

Tutkimus osoittaa, että tekstiilien maahantuontiprosessi Guatemalasta Suomeen vaatii useiden asioiden huomiointia, mutta on kuitenkin suhteellisen helppoa toteuttaa käytännössä. Erityisesti Generalized System of Preferences (GSP-järjestelmä) takaa sen, etteivät myöskään tullimaksut aiheuta ongelmia. On kuitenkin syytä muistaa, että maahantuontiprosessin toteuttaminen vaatii erityistä tarkkaavaisuutta strategisissa valinnoissa, sillä erityisesti kauppasopimuksen ehdoilla on merkittävä rooli. Varsinkin toimituslausekkeiden ja maksuehtojen valinnalla on merkittävä vaikutus riskien ja maahantuonnin onnistumisen kannalta. Tutkimuksen aikana nousi esiin useita muita näkökantoja, joita olisi mielenkiintoista tarkastella. Riskienhallinta ja liiketoimintakulttuuri Guatemalassa ovat hyviä esimerkkejä asioista, joita tulisi tutkia seuraavaksi, jotta voitaisiin selvittää olisiko tämänkaltainen liiketoiminta kannattavaa.

# IMPORTING TEXTILE AND APPAREL PRODUCTS FROM GUATEMALA TO FINLAND

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The purpose of this thesis was to research the aspects that should be taken into consideration when importing textile and apparel products from Guatemala to Finland. The angles for the research were the requirements and conditions for exporting from Guatemala, importing to Finland, and also the special standards set by the textile industry.

The research was carried out by searching and analyzing existing information from various sources. Finally, recommendations were given based on research findings. In this thesis, the theory is presented covering the areas of the trade conditions between Guatemala and Finland, the textile industry requirements, the contract of purchase, the import procedure, and the most important international trade documents. In addition to the theory, practical information about the textile importation process from Guatemala to Finland is included in each chapter. The final analysis and recommendations are presented in the last chapter, conclusions. Also a fictional import flow with recommended terms is included in the last chapter.

According to the study, the textile import process from Guatemala to Finland is relatively easy to carry out but several issues have to be taken into consideration. Especially due to the Generalized System of Preferences, paying the duties is not an issue of concern. However, the import process requires an extremely careful strategic thinking, and the conditions of contract of purchase play a significant role. Especially, choosing the terms of delivery and payment has a major influence on risks, and finally on the success of the import process. During the study, several other interesting viewpoints for further research appeared. Risk management and Guatemalan business culture are great examples of issues that should be examined next, in order to find out, if starting this sort of business operations would be profitable.

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## 1 INTRODUCTION

This thesis examines the practical procedure of importing textile products from Guatemala (situated in Central America) to Finland (situated in European Union area). As a starting point for choosing this topic, is the fact that Guatemala is a major producer of clothing products sold in the markets of the USA. In order to start the examination process, whether Guatemala could offer something for the European markets, the study of procedural methods of the import process is needed.

In this thesis, I have examined how to proceed and what things should be taken into consideration when handling textile export process from Guatemala, and the textile import process to Finland. The subject is approached through the eyes of an entrepreneur who has no previous experience on doing business with Guatemalan partners so far. The approach towards the topic has been done from three different angles, the export process, the import process, and the special requirements of the textile industry. The manufacturing, and the aspects involving the supplier in Guatemala, have been limited out of this study. In addition, the marketing, distribution processes of the products in Finland, and financing have been limited out of this thesis. Also the risks management and insurance issues have been limited out in order to keep the thesis brief and accurate.

The theoretical and empirical parts of the study have been tied together giving the reader a possibility to learn the facts from the general point of view of any export/import process, and at the same time to get information of the special requirements of the importation process of textiles from Guatemala to Finland. The chapters of this thesis include theoretical information, information especially on textile importation process between Guatemala and Finland, and some analysis.

In the last chapter, conclusions, it is discussed how the results can be utilized or applied in the future. In addition, recommendations and development ideas are presented. I will also describe the import flow with recommended terms. In addition, the last chapter includes a description of this thesis process and explains how it has been carried out.

## 2 PURPOSE OF THE THESIS

### 2.1 Background of the Thesis

As a background reason for choosing this topic for my thesis was the interest towards finding out if there would be business opportunities in the area of importing clothing and textile products from Guatemala to Finland. As an inspiration towards this topic was the known fact that Guatemala is a major textile producer for American markets, and therefore it could be a reliable manufacturing country with an adequate know-how and expertise in the textile industry. In addition, I already have some preliminary business contacts in the area, and a business partner in Finland, who has the requisite knowledge and understanding of the cultural aspects, as he has family in Guatemala and Guatemalan ancestry.

Examination of Incoterms 2010, and customs procedures and formalities, especially the GSP (generalized system of preferences), have been important theoretical standpoints for this work. In addition of examining the import and export procedures, limitations and restrictions, I have studied the terms of payment and standards and restrictions of the textile industry. Even if the aspects considering the supplier in Guatemala have been limited out of the research, the contract of purchase and its conditions have been examined.

Figure 1 describes the conceptual frame of reference of my study. It shows how the subjects that are handled in my bachelor's thesis are tied together to give a broad overview on what are the practical aspects of the textile importing process from Guatemala to Finland.

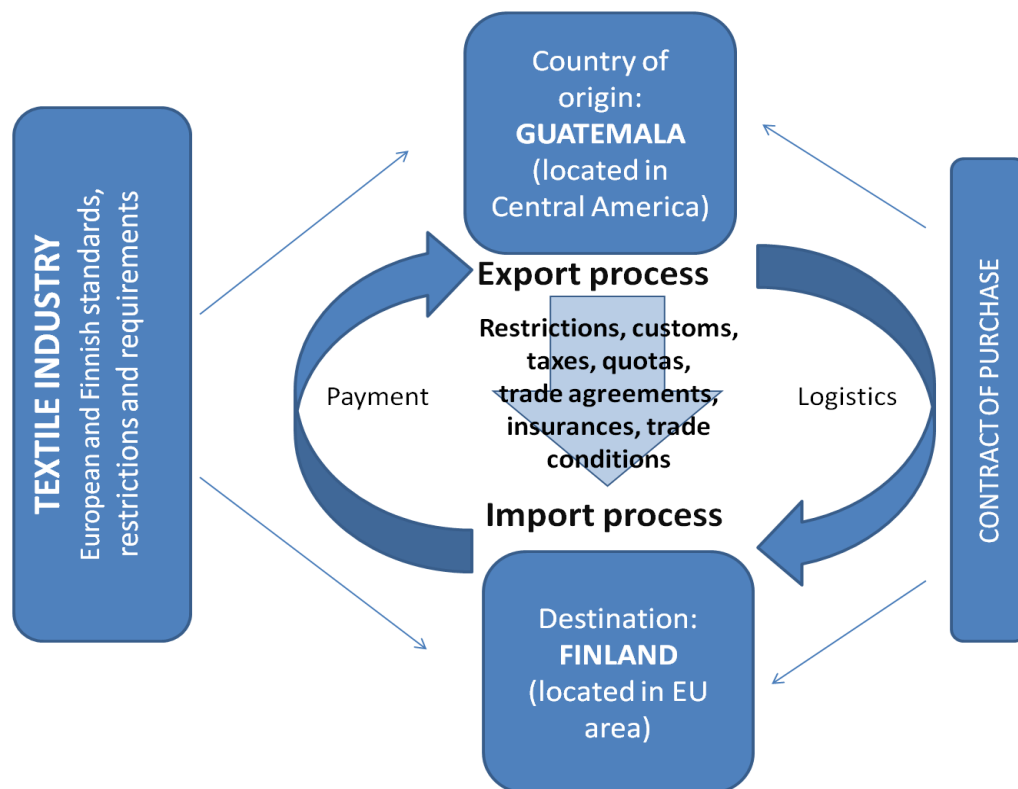


Figure 1. Conceptual Frame of Reference.

## 2.2 Research Problem and Methodology

The research problem of my thesis can be divided into three parts. First of all, the thesis is aiming to find out what kind the textile importing process from Guatemala to Finland is in practice. Secondly, the thesis objective is to find out what are the aspects that should be taken into consideration concerning the export/import procedures and the transportation of textile products. The third aspect of the research problem aims to understanding how the textile industry and regulations of the European Union and Finland affect the process and how those regulations can be controlled.

The research problem has been so on divided into research questions. Finding answers to the questions, act as the goal of the study. In my thesis, there are four research questions I am aiming to answer. My research questions are:

1. What aspects, including restrictions, taxes, possible quotas, duties and trade agreements, should be considered when exporting products from Guatemala (Central America)?
2. What aspects, including restrictions, customs, taxes, packaging and labeling, should be considered when importing products to Finland (European Union)?
3. What kind of challenges there can be when importing textiles from Guatemala to Finland, and how they can be managed?
4. What are the special requirements that textile industry brings to the export/import process including the requirements and restrictions when importing products to European Union area, and what are the national Finnish requirements? How to handle these requirements?

A qualitative data collection method has been used as a research method for this study. The research has been carried out as a desk research, collecting and analyzing existing information from various sources in Internet and from printed sources as well. The empirical part of the research includes evaluation and comparison of different ways of handling the import process. Conclusions, recommendations and development ideas for carrying out the textile importing process are presented as an outcome of the study.

### 3 TRADE ENVIRONMENT

#### 3.1 Bilateral Relations

Traditionally, Central American countries have mainly pursued business transactions with the USA, and the trade with the European Union has remained under 10 per cent over the last decade. However, recently the region has started to seek new opportunities for increasing the trade with Europe as well. About half of the imports from Central America to the EU come from office and telecommunication equipment



and about 35 per cent from agricultural products. The exported goods from Europe to Central America are machinery, transport equipment and chemicals. Figure 2 illustrates the trade of the whole Central American region between other countries and EU countries in 2010. (Website of European Commission 2011)

## Central America Trade in Goods

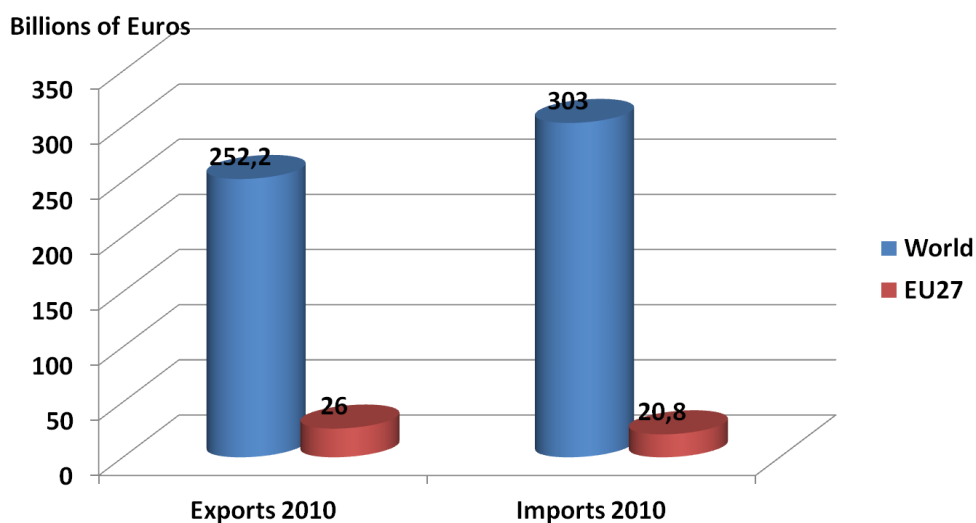


Figure 2. Central American trade in 2010. (Website of European Commission 2011)

In 2010, the value of exports from Guatemala was over 5.5 billion and the value of the imports was 9.8 billion Euros. The total value of the exports from Guatemala to the EU area in was 700 million, and the value of the imports was 400 million Euros. (Figure 3) (Website of European Commission 2011) In 2010, the total value of imports from Guatemala to Finland was 16 million and the value of exports was 13 million Euros. (Figure 3) Based on the statistics of 2011, it seems that the value of imports will be stable compared to the previous year but the value of exports will decline quite drastically. (Website of Finnish Customs 2011)

## Guatemala Trade in Goods

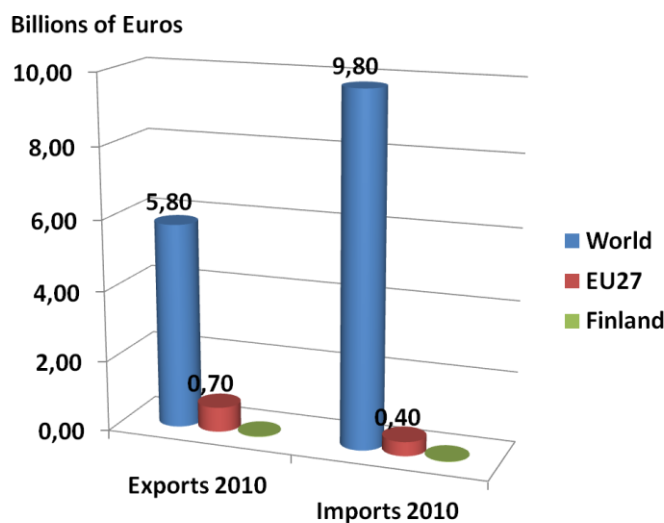


Figure 3. Guatemalan Trade 2010. (Website of European Commission 2011; Website of Finnish Customs 2011)

The geographical location of Guatemala is very interesting. There is an access to both, Atlantic and Pacific Ocean, which is a major competitive advantage for business. The modern seaports of the country facilitate direct trade with countries located either in Asia, North America or Europe. (Website of Invest in Guatemala 2008)

All the countries in the European Union area pursue common customs tariff and trade policy in any business transactions with countries outside the European customs area. Common regulations include import and export controls, limitations and restrictions, customs duties and exemptions, dumping regulation, countervailing duties, the GSP-system, preferential treaties, and quota systems. (Melin 2011, 252) The European Union and Central America have concluded an Association Agreement which includes a free trade agreement. In addition, Guatemala, among all the Central American countries benefit from the GSP+ system. (Website of European Commission 2011)

### 3.2 Generalized System of Preferences

Since 1971, the European Union has granted developing countries customs benefits with its customs benefits system; Generalized System of Preferences (GSP). The commercial policy of the European Union aims at reducing poverty and promoting sustainable development and fair governance in developing countries. The customs benefits are unilateral and the developing countries are not obligated to give customs benefits to the European Union countries. (Website of Finnish Customs 2011)

In practice, the GSP means that less developed countries pay lower duties on the goods they sell for their customers in the European Union area (Website of European Commission 2011). The Finnish government pursues actively towards reducing the barriers of trade in order to help the developing countries, secure the supply of raw materials and components, achieve the benefits for buyers, and to promote efficient competition at the home markets (Website of Ulkoasiainministeriö 2008).

Altogether, there are 176 countries entitled to benefits in the system. Guatemala is one of the 15 GSP+ countries, which means, it is entitled to even more benefits than the countries that belong to the general system. In practice, the Guatemalan exporter does not pay any customs duties on textiles and apparel products it sells to the EU area. (Website of Finnish Customs 2011)

All the customs benefits under the generalized system of preferences are only granted for products that are produced or manufactured in the specific GSP country. The country of origin has to be presented for the customs authorities using the “form A” which is laid off by the seller and confirmed by the authorities of the exporting country. (Website of Finnish Customs 2011) The rules of origin have been further explained in chapter 6.4.2 Import documents, in connection of the certificate of origin conditions.

The money that will be saved due to the GSP system is a major advantage for the import of textile products from Guatemala. We may be able to sell our products with a higher profit or with lower prices to attract customers. The GSP system allows customs benefits only on selected products from selected countries. For example, many

textile products manufactured in China are no longer eligible for the GSP preferences because of the growing development. This gives us a major competitive advantage compared to many products imported from the Far East.

### 3.3 Trade Barriers

Ever since the sixteenth century, governments have executed policies to protect their domestic companies from foreign competitors. These policies are called trade barriers and they aim at increasing national income and economic growth, and that way for raising the standard of living of their citizens. The barriers to trade are often divided into two categories: tariffs and non-tariff barriers. (Griffin & Pustay 2008, 248-249)

Tariffs are the most common form of trade barriers. Other forms of governmental interference to trade are called non-tariff barriers (NTBs). Any governmental policy, restriction or procedure, other than tariff, may be referred as an NTB. The nontariff barriers include quotas, levies, embargoes, sanctions and other restrictions. (Griffin & Pustay 2005, 252) Just like all the national governments, the European Union area has imposed a lot of import restrictions to limit and control the import of competitive products from outside the area. (Fintra 1999, 82)

Trade restrictions can have a major benefit on business transactions of some domestic companies. On the other hand, benefits are gained at the expense of domestic customers and foreign companies, raising the prices and reducing total supply. They also limit world trade and reduce total production, and that way have an effect on employment as well. In exporting industries, tariffs may reduce exports significantly and that way really change the country's economy. In Finland, the production of textile products is minimal but the European Union may want to protect the area's own production, and that has to be taken into consideration.

A *tariff* is a tax on internationally traded goods. The most common form of tariff is an import tariff but there are also export tariffs (when the goods are exported) and transit tariffs (when the goods just pass through a country). There are three types of import tariffs. The most used form is an ad valorem tariff. It is determined based on the percentage of the market value, typically the sales price, of the imported good at issue. The second form, a specific tariff, is determined as an amount of money per unit of weight, or other standard measure. The third form of import tariff, a compound tariff, is a combination of ad valorem tariff and specific tariff. The tariffs act as effective trade barriers and promote the use of domestically produced goods and raise revenues for the government. Customs duties are relatively easy for governments to collect, and import tariffs add progressivity to the domestic tax system, as usually rather wealthier people purchase imported goods. (Griffin & Pustay 2008, 249-251)

Guatemala has been strongly striving to become a more export-oriented country during the past years. This means, that the country has adopted free trade policies, and many tariffs have been reduced or even eliminated. This makes the export procedures easier, and enables introducing Guatemalan products to the global markets. (Website of Invest in Guatemala 2008)

Many countries use a detailed classification system for imported goods, the Harmonized Tariff System, HTS or HS. It categorizes the goods based on their degree of processing, and the raw materials used. The goods are first categorized into main groups and then forward into subgroups. The HS tariff item is an 8-digit code; the first six digits are international and the two last ones can vary nationally. (Fintra 1999, 8; Griffin & Pustay 2005, 249) Instead of the HS system, European Union uses the more accurate system, TARIC (Integrated Tariff of the European Communities). TARIC is a 10-digit code including also the subcategories based on the agreements on customs benefits and amounts. Generally, when importing products from third countries to the European Union area, the importer declares the TARIC codes at the customs clearance. Instead, when exporting products from the EU, the HS codes are often used. (Fintra 1999, 81; Sneek 2002, 194)

The TARIC codes and further information can be easily found from the European Commission website: [ec.europa.eu/taxation\\_customs/dds2/taric/](http://ec.europa.eu/taxation_customs/dds2/taric/). There is a database that helps the importer to find the right digit codes from the 18,000 different options. The database includes the information of the codes, regulations and tariffs, dumping duties, and different kinds of restrictions and prohibitions of the European Union. (Website of European Commission 2011)

The TARIC system also includes the information on the GSP+ system preferences, which means that the importer gets the information on when he does not have to pay any tariffs or taxes for the imported products. This is very practical, as when importing textile products from Guatemala to Finland, the GSP+ system has a major effect on the duties. In practice, the system is quite easy to use and it works consistently. However, it is important to have detailed information on the products and materials used available when using the database as it makes finding the right code easier.

The HS system and TARIC can be quite complex and difficult to use. The problems may occur when the customs officials interpret the tariff classification in another way than the importer has thought they would. As the interpretation solves the percentage of duties, the profit can easily shrink a lot or even totally disappear, only because of the varying interpretation of the code system of the importer and customs officer. (Griffin & Pustay 2005, 249; Sneck 2002, 194) However, the importer is entitled to apply for a binding resolution for what code will be used for a certain product; this is called the Binding Tariff Information, BTI. A BTI is free and legally binding on all Customs administrations within the European Community for up to six years from the date of issue. (Fintra 1999, 81) The customs authorities are obligated to give the resolution without delay, at the latest in three months, after the importer has applied for the BTI with an appropriate form. All the resolutions given in different member states are collected into a common database. This database is used to reduce the different interpretations of TARIC codes and to solve disagreements. (Sneck 2002, 197)

*Quotas* are one of the most common types of non-tariff barriers; NTBs. Quota means a numerical limit of a certain product that may be imported to a country during a certain period of time, for example, a year. Traditionally, quotas have been used to protect the country's own production on sensitive industries, such as, agriculture and

textile production. Today, as a result of trade agreements, many countries have replaced quotas with tariff rate quotas; TRQs. With TRQs, countries regulate low tariffs for certain quantities of products and high tariff rates for goods over the limited amount. The consequence of tariff rate quotas is the same as with quotas: the import of certain products will be limited on a certain level. However, TRQs give the importer a possibility to import higher quantities. The tariff rate quotas help the domestic producers but may hurt the domestic consumers instead, as the consumer prices may rise as a consequence. (Griffin & Pustay 2005, 252)

The WTO Agreement on Textiles and Clothing (ATC) expired on January 1, 2005. The expiry meant that all the quotas from trade between WTO countries were removed. (Website of Ulkoasiainministeriö 2011) However, the common textile quotas in the European Union area have been set by categories and they are applied in calendar years. The year when the goods have been load up for the transportation at the country of departure, is the year that the quota is applied for. The import licenses are required for importing textile products. The customs office grants the license but quotas have been set by the European Union. The importer can apply for the import license using the form 654s. The form in Finnish language, and the instructions for filling it in, can be found from the Finnish customs website: [www.tulli.fi](http://www.tulli.fi). (Website of Finnish Customs 2012)

In addition to quotas, another example of a quantitative trade barrier is *a voluntary export restraint* (VER). It is a voluntary promise of one country to another to limit its exports to that certain country. Usually, this kind of an agreement is made to maintain good relations and to avoid trade conflicts. (Griffin & Pustay 2005, 254)

Probably the strictest form of a quantitative trade barrier is *an embargo*. It means an absolute ban of exporting or importing certain products to a certain destination. It could be interpreted as a punishment to a political enemy country by another country or international trade authority. (Griffin & Pustay 2005, 254) At the moment, there are no embargoes for trade between Guatemala and Finland. Neither there are currently any *anti-dumping or countervailing duties* for trade. (Website of Ulkoasiainministeriö 2011)

To protect themselves in the competition, countries also use many other non tariff barriers, government laws, regulations, policies or procedures, to protect their own economies. Non-quantitative NTBs have become popular methods to restrict international trade as the usage of tariffs and quotas has reduced. Common forms of non-quantitative NTBs are product and testing standards, restricted access to distribution networks, different kinds of public-sector procurement policies, local-purchase requirements and regulatory, currency and investment controls. (Griffin & Pustay 2005, 255-257)

*Product and testing standards* are very common methods to ensure that the imported products meet the country's product requirements. *Restricting the access to the distribution networks* for foreign suppliers is a method that countries like China, Thailand and Japan use to protect their local industries. *Public-sector procurement policies* refer to giving domestic companies preferential treatment. Especially in countries where state ownership is common in industries, foreign companies can easily be blocked out from the big part of the competition. *Local-purchase requirements* mean forcing local companies to purchase their goods or services only from local suppliers. Regulatory controls refer to governments creating NTBs by adopting different kinds of regulations connected to things like, for example, safety, environmental protection and construction work. Especially developing countries, the usage of *currency controls* is common in order to control international trade. Then the exporters of domestic products can exchange foreign currency with favorable exchange rates, and importers of foreign products are imposed to exchange currency with unfavorable exchange rates. *Investment controls* refer to restricting the foreign ownership and investment of companies into a certain level. (Griffin & Pustay 2005, 255-257)

The European Union area and Finland use very strict product standards as a requirement for foreign goods before they can be sold in the area. The textile industry requirements for imported goods will be further presented in chapter 4.



### 3.4 Promotion of International Trade

In addition of foreign trade restrictions, governments also make policies that promote international trade, including subsidies, foreign trade zone establishment and financing exports. The aim for these policies is to create jobs in export or to attract investments for the industries that are economically depressed. (Griffin & Pustay 2005, 257)

Some countries offer companies *subsidies* to reduce the costs of their business operations in order to boost exports. There are many different forms for subsidies, such as tax exemptions, offering free land or staff training, highway construction etc. Subsidies can have a major affect on international trade by artificially improving or weakening the competitiveness of some companies. (Griffin & Pustay 2005, 258)

Governments worldwide use different sized geographical areas called *free trade zones (FTZs)* to stimulate economical development regionally. Because of a FTZ, a company may be able to delay, reduce or even avoid customs duties, and benefit economically. A general form of using a free zone is a situation where a company imports a component, processes it forward and then exports the processed product abroad without paying the customs duties for the imported component. (Griffin & Pustay 2005, 258-259)

There are 16 free trade zones in Guatemala. According to the law, “a free trade zone is described as the physical territory delimited, planned, and designed under a special customs regime, where individuals or legal entities are engaged in the production or commercialization of export goods and international trade services”. The main purpose of the FTZs in Guatemala is to attract foreign investments. Other benefits for the country are increase in jobs, transfer of know-how, improvement of exports and increase in foreign trade, improvement of local products and companies, introduction of new technologies and stimulation of less developed regions of the country. (Website of Invest in Guatemala 2008)

Using the Guatemala's FTZs in the apparel product manufacturing and export operations is probably not the first step in business but it is a good to know that these kinds of opportunities exist. Later on, when the business grows, using free trade zones can be an option that should be considered when planning and developing business strategies.

*Financing exports* is the third form of promoting international trade. Especially with substantial business transactions, such as selling an aircraft, the financing terms may be an essential deal breaker for a customer. To help the exporting companies to be more competitive in terms of offering their customers an attractive financing package, many countries have created government-owned agencies to offer their domestic companies assistance in arranging export financing. (Griffin & Pustay 2005, 259)

## 4 TEXTILE INDUSTRY

### 4.1 Textile Industry in Guatemala

Guatemala has a rich Mayan heritage, and the local traditional dresses include typically bright colors and high craftsmanship. It can be easily noticed that Guatemala has the prerequisites for becoming a major global center for clothing and textile manufacturing industry. In 2008, 15 per cent of the total work force in Guatemala was employed in the industry sector and over 70 per cent of those people worked in clothing, textile and related industries. (Website of University of Delaware 2008)

Mostly situated in the Guatemala City area, there are several mills producing cotton thread, yarn, woven cotton fabrics, synthetic and polyester/cotton blended fabrics, and 100% cotton knits. In addition, there are over 150, mostly Korean owned, factories producing apparel products. The main products are knit cotton trousers, pants and shorts, including jeans and knit tops and shirts from cotton and synthetic materials. In 2011, about 80 per cent of the textile production was exported to the market of USA, Mexico and other Central American countries. In addition to the yarn mills and clothing production, Guatemalan factories can also offer all the needed accessories

for the industry, including hangers, tags, labels, buttons, elastic bands, chemical products etc. This makes a fast and effective production and fulfilling the orders possible and makes Guatemala more competitive in the global textile industry. (Website of University of Delaware 2008; Website of Vestex 2011)

Research and development work in Guatemalan textile factories is in a major role, and co-operation between apparel makers and local mills is essential in order to develop new fashion fabrics and yarns, and to develop more value added products. The importance of research and development will even grow in the future, as the competition will become heavier. Further, if the Guatemalan textile industry wants to grow its share in the global markets, it has to be prepared to the growing demand of quality products of the end users of textiles. (Website of University of Delaware 2008)

When placing the orders for Guatemalan clothes manufacturers, making sure that everything will be understood will be a major challenge. The cultural differences and language barriers can cause problems and therefore Guatemalan culture and business practices should be carefully examined before starting the business operations. However, as we know that the Guatemalan manufacturers are experienced in dealing with Americans, getting started may be a little easier. Knowing that our business partners have further experience with other westerners is kind of a relief, and I believe that we have a better chance to succeed.

#### 4.2 Textile and Clothing Industry Requirements in Finland

Finland's own textile production is very small and the apparel and textile industry imports have grown steadily during the decades. In 2010, the textile and apparel industry imports were over 1 800 million Euros (Figure 4).

### Apparel and textile industry imports to Finland 2010, 1 873 Million Euros

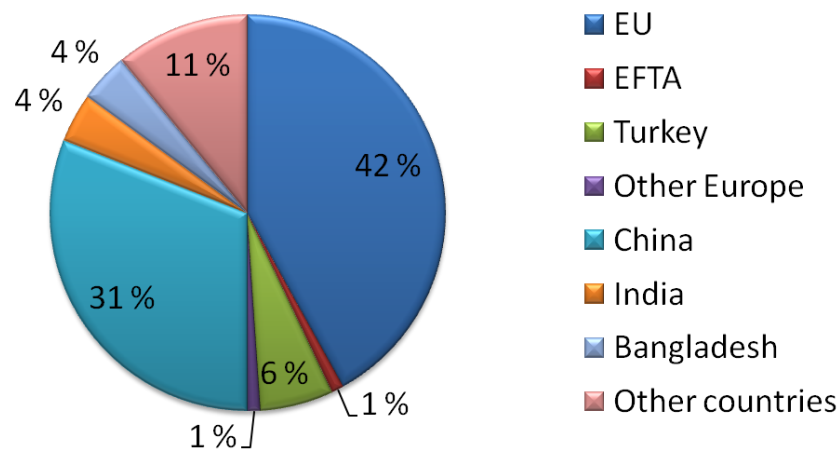


Figure 4. Apparel and textile industry imports 2010. (Website of Finatex 2011)

In addition to the imports from the European Union area (especially Sweden and Germany), the imports from the Far East are significant. Especially Bangladesh has, and will likely, grow its exports in cotton products, mostly due to the GSP preferences it is allowed. (Website of Finatex 2011)

Based on my own experience, I can say that the safety requirements and standards in the Finnish clothing industry are relatively strict. The customs supervise the textile products imported to Finland very strictly and there are precise regulations on chemicals that can or cannot be used. Especially the clothing for children is strictly regulated in order to shut out dangerous products from entering the country. In addition, the marks and labels, including sizes, have to be labeled properly so that the clothes can be sold in Finnish stores. One problem of the apparel product importation to Europe, are the varying national rules, for example, marking the sizes. For example, if we wanted to sell clothes imported from Guatemala in Finland and in Italy, we would have to have to different sizes marked in the labels, or manufacture the products in two batches with separate labels.

All in all, the strict regulations and control should not be considered as negative things. They give secure to the consumers and ensure that the quality of products sold in the Finnish stores is adequate. However, it can be challenging to make sure

that requirements are understood at the factories where the clothes are manufactured. The seller has to understand that the standards are not the same as they are in the USA or in Central America.

#### 4.2.1 Marks and Labels

The importer or manufacturer of a certain textile product is responsible for the validity of all the textile markings. In Finland, it is compulsory to mark the fiber content, care instructions and name of the manufacturer/importer to all the marketed textile products. Other important but not compulsory markings for clothes, are the country of origin, name of the products, and instructions for use and storage. (Website of Finatex 2012) If the textile products are not intended for end users (samples, for example), the labeling and marking can be replaced with commercial documents that are delivered with the products (Website of Europa 2012). The fiber content of a certain textile product has to be given in Finnish and Swedish using the official fiber titles. The commercial fiber names can only be used as additional information. Fiber name abbreviations are not allowed in the information given to the end consumers. (Website of Finatex 2012)

The care instructions for a certain product have to be given in Finnish and in Swedish using certificated symbols or words. The care instruction symbols can only be used with a permission of the certification authority, SFS-Inspecta Sertifointi Oy. The label should be situated the way that the instructions can be easily found and that they are safe and permanent. It is usually sewn together with the fiber content information label and the manufacturer information. The marks are recommended to be situated as in the chart below (Figure 5) every time it is possible, and all the five symbols should be used in the given order.

1. Wash
2. Bleach
3. Tumble dry
4. Iron
5. Dry-clean

It should also be remembered, that the care instruction symbols do not apply for leather products and carpets, they have their own symbols. (Website of Finatex 2012)

#### TEXTILE CARE INSTRUCTION SYMBOLS

WASH		BLEACH		TUMBLE DRY		IRON		DRYCLEAN	
	Normal		Any Bleach When Needed		Normal		Maximum 200 °C		Tetrachloroethene
	Delicate/Gentle				Delicate/Gentle (Low Heat)		Maximum 150 °C		
	Normal		Only Non-Chlorine Bleach When Needed				Maximum 110 °C		
	Delicate/Gentle		Do Not Bleach		Do Not Tumble Dry		Do Not Iron		Hydrocarbon
	Normal								
	Delicate/Gentle								
	Delicate/Gentle								Do Not Dryclean
	Very delicate/Gentle								
	Hand Wash								Chemical Wash
	Do Not Wash								

Figure 5. Textile care instruction symbols. (Website of Finatex 2012)

It is compulsory to mark the manufacturer or importer of a textile product. The name has to be on the product itself as well as on the package. It should also be remembered that giving just a trademark is not enough and the information has to be given accurate enough. The name and quantity of a product have to be marked on the package as well, if they cannot be seen without opening the package. Also size is a compulsory mark on apparel products. The information for disposal, storage and use are necessary information on any consumer goods if there is something special that the consumer should be aware of. (Website of Finatex 2012)

Marking the country of origin on the product is not compulsory but possible, if wanted. The country of origin is the last country where the product has been through a process or treatment that has led into the manufacturing of a new product. (Website

of Finatex 2012) In my opinion, marking the country of origin can however be an effective marketing technique and important information for the consumers. That is why marking the manufacturing country should be carefully considered. Whatever the truth, the customers will ask it anyway. Marking the country of origin to the product might promote the image of the brand as a reliable manufacturer with a transparent supply chain.

#### 4.2.2 Size Charts

Currently, standards for European size charts are in progress. The Finnish size charts are called N-2001 for women, and PASSELI size charts for men and children. The size charts have been created using the measurements of average Finnish people. The size charts are recommendations for the Finnish clothing industry and they aim for making clothes fit better on their users. Another goal is to make shopping easier for end users, as they can find their own size more comfortably in the clothing store. The size charts with accurate measures can be found from the website of Finatex: <http://finatex.fi/>. Unfortunately, they are only available in Finnish language. (Website of Finatex 2012)

N-2001 size chart for women is based on the measurements for over 1500 women during the years 1999-2001. The size chart has been divided into two age groups; 15-64 year olds and over 64 year olds. Both age groups have been so on compartmentalized into six height categories. Both age groups have also six different body types based on bust and hip measurements, and three different types of waist. (Website of Finatex 2012)

The size chart for men has been drawn up in 1988. Unlike the size chart for women, the size chart for men has been drawn up based on the knowledge of men's clothing manufacturers and comparison for foreign size charts. The aim of the size chart is to give clothing manufacturers information that can be used for domestic production as well as for exporting purposes.

The size chart for children has been in use since 1984. Like the size chart for men, it is based on the information from manufacturers and foreign size charts. Children's sizes are given in centimeters. (Website of Finatex 2012)

The information and measurements in the size charts are relatively old and it can be quite questionable if they are still valid. The European size charts would also be very welcome, as they would make the size systems more similar and easier to use for the end users. Currently, the sizes in different countries are very different and mix ups can happen easily (Table 1). Many manufacturers these days are forced to marking the sizes in several different countries into their labels. That can make the end users quite confused at the clothing stores, and cause incorrect estimates when people are, for example, buying clothes as gifts.

**SIZE MARKS FOR WOMEN IN DIFFERENT COUNTRIES**

Finland The Nordic Countries Germany	34	36	38	40	42	44	46	48
France Spain	36	38	40	42	44	46	48	50
Italy	38/40	40/42	42/44	44/46	46/48	48/50	50/52	52/54
England	8	10	12	14	16	18	20	22
USA	6/8	8/10	10/12	12/14	14/16	16/18	18/20	20/22

Table 1. Clothing sizes for women in different countries (Website of Finatex 2011).

It is extremely important to clarify the Finnish size and measurement requirements with the manufacturer before putting the production into operation. The Guatemalan size charts are very much different from what are used in Finland. The size charts in the United States might be a little bit more similar but they have a totally different style for marking the sizes.



### 4.2.3 Chemical Restrictions

To make clothes easier to wash and care for, and to make the life of textiles longer, all the textile products go through preparation, coloring and revision processes where a lot of chemicals are being used. In order to protect people and the environment, the usage of dangerous chemicals is forbidden in Finland. The Finnish chemical Act is on line with REACH regulation, imposed by the European Union, which controls chemical registry, permission and limitations. (Website of Finatex 2012)

The REACH regulation (Registration, Evaluation, Authorization and restriction of Chemicals) involves all the chemical importers, producers and users. In addition, the regulation involves also the products that may release chemicals, such as textiles. The chemicals that are imported to the EU area, or manufactured there, and their amount is at least for one ton per manufacturer or importer, must be registered. The registration obligation includes also the textile importers, for example, if a piece of clothing lets color and the colorant has not been registered before. (Website of Finatex 2012)

The REACH regulation includes a compulsory notification on substances of very high concern (SVHC). It means that if over 0.1 per cent of the total weight of the product is SVHC it has to be announced. Chemicals that should be especially noticed when operating in textile industry are phthalates and certain flame-retardants. When importing textile products from outside the EU area, the importer should check that the products do not include SVHC, and if they do, at least the name of the substance has to be notified. (Website of Finatex 2012)

The chemical restrictions may seem quite strict but it should be remembered that they have been imposed for our own safety. The restrictions and forbidden chemicals should be taken into account before starting the production. In the worst case, the goods may not get a permission to be imported to the country, if the customs authorities have found forbidden substances. In addition to the chemical regulations on textile products, the importer should also make sure that the packing materials do not include any forbidden chemicals.

## 5 CONTRACT OF PURCHASE

### 5.1 Contents of the Contract

Before the importing process can really begin, the process naturally covers a lot of planning and evaluating. For example, the importer has to search, compare, and investigate the options before choosing the products and the supplier. In this thesis, even though the aspects concerning the supplier have been limited out, the purchasing process is handled concerning the aspects of the contract of purchase and its conditions. Especially the terms of payment and delivery are handled here.

After the request for quotation, bid comparison, and negotiations, the process can proceed into the order and the contract of purchase. Generally, the customs regulations should be taken into consideration before making the contract. The importer should also check the background and credit status of the supplier. In addition, the terms of payment, and who will be in charge of transportation and forwarding should be agreed on. (Melin 2011, 19) The same aspects of quality control, governmental regulations, protection of property rights, and dispute resolution are valid in international contracts than in domestic contracts. In addition, the negotiations may be more complex because of the differences in cultural backgrounds and laws and regulations. (Shippey 2009, 6)

The contract of purchase is a reciprocal agreement that is binding on both parties. The contract should be made carefully and it should be based on the objective of both parties. It is extremely important to remember, that especially in international trade, the contract has to be detailed and broad enough, so that there will be no room for misinterpretations. To make sure that the parties do not have different kind of assumptions, all the aspects handled during the negotiations should also be written into the contract. Generally speaking, the parties decide together which law will be applied for the contract. However, usually the law in the seller's country is the law that will be applied in case of a disagreement. (Melin 2011, 42)

There are significant differences in the norms and standards of contracts in different countries. Especially when dealing with a supplier from a country of particularly different trade practices and cultural background, the contract of purchase should be done with special care and without any possibilities for misinterpretations. Fortunately, there have been efforts towards making the international trade of goods more uniform by applying the international trade law. The names UNICITRAL (United Nations Commission on International Trade Law) and CISG (United Nations Convention on the International Sale of Goods) refer to the international trade law which is accepted in dozens of countries inside and outside of Europe. (Melin 2011, 43; Shippey 2009, 11)

There are four basic terms that should be at least covered in the contract of purchase; description of goods (including the type, quantity and quality), the time of delivery, the price and the terms of payment. In most countries, these terms must be agreed on the contract in order for their courts to enforce the contract. (Shippey 2009, 15) In addition, it is recommended that the contract covers also the company information on both parties, the terms of delivery, grounds for release from liability (for example, conditions of force majeure), commodity inspection, guarantee conditions, ownership of the goods, liability for risk, packaging regulation, implementation of the agreement and details on how to solve possible disagreements (Melin 2011, 47-48).

As a buyer, it is important to make sure that the seller is actually able to deliver the goods the way that has been planned. The credit status of the seller should be checked and his reliability should be carefully evaluated. As the buyer and importer, the Finnish law and customs formalities should also be checked to make sure that there are no lawful excuses for the importation of certain products. (Melin 2011, 48)

When we are doing business with Guatemalan partners, it is extremely important to make sure that we can trust our trading partner. Corruption and theft are not uncommon in Guatemala, and we should minimize the risks of becoming a victim of such crime.

## 5.2 Terms of Delivery

The terms of delivery are an important part of a contract of purchase as they determine responsibilities of the seller and the buyer during the delivery of goods. The terms of delivery are international trade practices and their interpretation can vary significantly from one country to another. The number of different delivery terms and their interpretations can lead into a lot of disagreements. In order to pre-empt these problems, there has been significant efforts into publishing uniform international collection of interpretation. (Melin 2011, 56)

The most common form of interpreting the terms of delivery is to apply the Incoterms rules that are published by the International Chamber of Commerce (ICC). Other important forms of interpretations of the terms of delivery are called Combiterms and Revised American Foreign Trade Definitions (RAFT). However, the usage of Incoterms is widely recommended as the terms have recently been updated. (Melin 2011, 56) In this thesis, the Incoterms® 2010 are handled as the terms of delivery for the contract of purchase.

The Incoterms® 2010 determine the operational and cost responsibilities, and the liability for risk between parties during international delivery of goods. However, they do not include the information on terms of payment, the time of delivery or what happens if there is a breach of contract. Also the proprietary right of the ownership of goods should be agreed in another part of the contract. (Melin 2011, 56)

The Incoterms are published by the International Chamber of Commerce (ICC), and they include definitions and rules of interpretation of the most common delivery terms. The rules are internationally recognized and used, and they have become a standard in international business. The development of the rules has been carried out by experts of ICC to help international business people to avoid misunderstandings in the delivery of goods from sellers to buyers. The first publication of Incoterms is from 1936. The latest collection, Incoterms® 2010, has been published in September 2010, and it officially came into force in January 2011. The reform of Incoterms® 2010 led into dividing the terms the way that the terms in the first group are suitable for all kinds of modes of transportation and the terms in the second group are only

suitable for maritime transport (Table 2). Another reform is deducting the terms from 13 to 11 terms. Two new rules, DAT and DAP, have replaced the Incoterms 2000 rules DAF, DES, DEQ and DDU (Melin 2011, 57; Website of International Chamber of Commerce 2012)

INCOTERMS 2010	
<u>Rules for any mode of modes of transport</u>	
EXW	Ex Works
FCA	Free Carrier
CPT	Carriage Paid To
CIP	Carriage and Insurance Paid To
DAT	Delivered At Terminal
DAP	Delivered At Place
DDP	Delivered Duty Paid
<u>Rules for sea and inland</u>	
<u>waterway transport</u>	
FAS	Free Alongside Ship
FOB	Free On Board
CFR	Cost and Freight
CIF	Cost, Insurance and Freight

Table 2. Grouping of the Incoterms® 2010. (Melin 2011, 58)

Another, more traditional way of grouping the rules, is describing the nature of the term by its first letter. In the more traditional grouping system, there are four groups:

### 1. Group E

- The seller makes the goods available to the buyer at the premises of the seller and the buyer fetches the goods.
- Not recommended for international business operations.

### 2. Group F

- The seller delivers the goods to a carrier named by the buyer.
- The buyer is responsible for fetching the goods.

### **3. Group C**

- The seller contracts for carriage close to the buyer.
- The buyer assumes the risk of loss or damage to the goods or additional costs.
- The carriage is paid by the seller
- The buyer receives the goods from the carrier.

### **4. Group D**

- The seller bears all the costs and risks needed to bring the goods into the country of destination.
- The seller arranges the carriage. (Melin 2011, 58-59)

In order to be applied in a certain business transaction, the reference to the Incoterms® 2010 should be a part of the contract. For example, “DAP Koulukatu 12 Turku Finland Incoterms® 2010” As Incoterms is a registered trademark it should be demonstrated with the symbol. However, as it is difficult to use in practice, it can be left out. It should be still taken into account, that in some occasions, the symbol should be used, for example, when dealing with some banks. (Melin 2011, 61)

The precise description for all the terms of delivery can be found from the publication of “Incoterms® 2010” by the International Chamber of Commerce. Some further explanation for each term of delivery can be found from appendices (Appendix 1). Only the terms that can be applied for the textile importing process from Guatemala to Finland, will be handled. In another words, the terms that do not fit or that are impossible for this kind of import process are left out from the further evaluation. Table 3 illustrates how the responsibilities are divided between the buyer and the seller in each term of Incoterms® 2010.

## INCOTERMS 2010 RULES

	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAT	DAP	DDP
Charges/Fees	Ex Works	Free Carrier	Free Alongside Ship	Free On Board	Cost & freight	Cost, Insurance & Freight	Carriage Paid To	Carriage Insurance Paid To	Delivered At Terminal	Delivered at Place	Delivered Duty Paid
Packaging	Buyer or Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading Charges	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Delivery to Port/Place	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Duties & Taxes	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on Carriage	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance						Seller		Seller			
Destination Terminal Charges	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Delivery To Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Import Duties & Taxes	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller

Table 3. Incoterms® 2010 rules and responsibilities. (Website of International Business Training 2012)

There are many indicators affecting when choosing the term of delivery. Naturally, the seller and the buyer are both making their decisions based on what would give them the biggest benefits. The elements affecting the process of choosing the term of delivery are:

### 1. Knowledge

- It is important to make sure that both parties know and understand the contents of the chosen delivery term. Especially the knowledge for bearing the costs and liability for risks are essential factors for both parties to understand.

### 2. Transportation policy of the company

- The size, location, market conditions and the industry affect the policy of transportation of each company. For example, many companies want to be in charge of transportation themselves instead of leaving it for the other party.

### 3. *Previous practices*

- Many companies like to stick with the practices they have used before.

### 4. *The volume of transport*

- Usually, the company who has better relations with the transport line or insurance company gets more competitive prices.

### 5. *Government policies*

- For example, the customs formalities may affect the choosing of the term of payment. (Melin 2011, 81)

My recommendations with supportive reasons for choosing the terms of delivery, when importing textiles from Guatemala to Finland, are in the last chapter, conclusions.

## 5.3 Terms of Payment

Besides the terms of delivery, another major aspect to be negotiated for the contract of purchase, are the terms of payment. The different terms and methods should be understood well enough to avoid choosing unfavorable payment methods which can be risky and expensive. There are several factors influencing the choice of the payment term. The currency, payment time, place and method of payment, possible discounts, bank charges, and the terms of delivery all have their influence on the decision. The terms of payment may have a major affect on the final price. Also the currency risks should be evaluated carefully, especially when paying goods in advance. In order to avoid disagreements and misunderstandings the terms of payment should be reported in the contract of purchase as unambiguous and clear as possible. (Melin 2011, 119; Van Weele 2010, 38-39; Weiss 2008, 112)



In international business transactions, there are several different methods for handling the payment. The most important methods of payment are:

- Open account
- Documents against acceptance (D/A)
- Documents against payment (D/P)
- Documentary credit (D/C)
- Payment in advance

Payment in advance would be the riskiest method of payment for the importer, and conversely, an open account would be the best choice in order to minimize the risks. (Weiss 2008, 112)

When choosing the payment method, the trust between parties, competition on the markets, traditional customs of the trade, and risk strategies have their affect on the decision. The possibilities for the payment methods should already be discussed during the bidding procedures in order to be able to avoid misunderstandings. (Melin 2011, 120)

The different methods are presented here briefly to demonstrate their most important contents, and to be able to draw some conclusions on the choice of favorable payment methods for purchasing textile products from Guatemala. My suggestions for choosing the terms of payment are presented in the last chapter, conclusions.

### 5.3.1 Open Account and Payment in Advance

Open account is the riskiest method of payment for the seller. The exporter sends first the goods and later the invoices for the products and related costs. There are several ways for the importer to pay for the goods he has received. He can use an international money order, a bank transfer, or send a form of cashier's check. In some occasions, the buyer can even use a PayPal account to make the payment. Open account is a very inexpensive method to handle the payment. It requires a good reputation of the buyer and a sound relationship between the parties. (Weiss 2008, 113)

Checks are not very widely used anymore as there is some major safety risks involved. Also the development of electronic bank transmission methods has led into the decrease of checks. An international money order would be a much more safe way to pay for the goods. In practice, it is a lot similar to a domestic bank transfer. (Melin 2011, 121-125)

As the open account is the riskiest method of payment for the seller, an advance payment is the riskiest method for the buyer. Simply put, the idea is that the buyer pays for the products first, and then the seller makes the shipment of goods. This method of payment requires a high confidence from the buyer. Due to the high risk for the buyer, it should be carefully considered before agreeing to pay in advance. (Hinkelman 2009, 12)

As Guatemala is relatively an instable country both politically and economically, it would not be wise to agree on an open account as a term of payment. In practice, it should be considered only when it is a matter of, for example, small quantity of samples with a trusted supplier or some other special case.

### 5.3.2 Documents against Acceptance and Documents against Payment

Documents against acceptance (D/A) and Documents against payment (D/P) are methods of payment that include documentary drafts. In international trade, a draft is signed by the seller and addressed to the buyer. It orders the buyer to pay the amount in the draft. In practice, the seller gives his bank an order to make the draft that will be delivered to the buyer's bank. After the money from the buyer's account has been transferred to the seller's account the payment has been done successfully. The goods will be delivered at first to a terminal or warehouse of the carrier and will be given out to the buyer when the payment has been done. The draft is also called a bill of exchange. (Melin 2011, 125-126; Weiss 114-115)

D/P, documents against payment, means that the buyer has to pay when his bank notifies him about the arrived documents. In practice, the goods have usually arrived to the country of destination at this point. The expression, "at sight" often refers to this

method. D/A, documents against acceptance, is used when the seller has given the buyer credit. This means that the buyer has to sign the draft in order to receive the documents from the bank. (Melin 2011, 125-126; Weiss 114-115)

Typically, the sequence of actions with a bill of exchange transaction would be:

1. The seller (exporter) fills out the form for his bank.
2. The seller (exporter) sends the goods and documents to the freight forwarder.
3. The freight forwarder sends the goods and receives a bill of lading signed by the carrier.
4. The freight forwarder sends the documents to the exporter's bank.
5. The seller's bank sends the documents to buyer's (importer) bank.
6. The buyer either pays or accepts and receives the documents.
7. The importer gives the documents to the carrier and receives the goods.
8. The importer's bank transmits the money to the exporter's bank. (Weiss 2008, 117)

With D/A or D/P, the risks are much heavier for the seller than for the buyer. The payment may take more time than expected, or the buyer may not cash the documents at all. The only risk for the buyer to bear is that the goods may not be equivalent to what has been expected. However, the regular procedures of reclamations apply in such cases. (Melin 2011, 130)

### 5.3.3 Documentary Credit

Letter of Credit (L/C) or preferably used term, Documentary Credit (D/C) is an important method of payment in international trade. The method most commonly includes four parties:

1. The Applicant (buyer)
2. The Issuing Bank (buyer's bank)
3. Advising Bank (seller's bank)
4. The Beneficiary (the seller)

The buyer applies his bank to open the D/C in favor of the exporter. In practice, this means that the bank promises to pay the exporter after the specifications of the D/C have been fulfilled. Generally, the specifications of the D/C include the documentary evidence that the goods have been shipped by the time and in the manner stated in the D/C. Also the time and place of the payment are included in the D/C. The Issuing bank, also known as the opening bank, usually transmits the document to its corresponding bank close to the seller. This bank is called the Advising bank because it advises the exporter about the opened credit in his favor. Because the letter of credit has been opened in favor of the seller, the seller is the beneficiary. (Melin 2011, 130-131; Weiss 2008, 118)

Typically, the sequence of actions with a Documentary Credit transaction would be:

1. The conditions of the Documentary Credit are detailed in the contract of purchase between the seller and the buyer.
2. The buyer (importer) applies for a letter of credit.
3. The opening bank makes sure that the buyer is solvent.
4. The opening bank sends the D/C through its correspondent bank.
5. The correspondent bank (advising bank) advises the seller (exporter) that the D/C has been received.
6. The seller (exporter) makes sure that the Documentary Credit and its conditions are in line with what has been agreed on the contract of purchase.
7. The exporter sends the goods and documents to his freight forwarder.
8. The exporter shows the shipping documents to the advising bank during the validity time.
9. The seller's bank checks the documents and disburses the seller's account.
10. The seller's bank forwards the documents to the buyer's bank and charges the amount it has paid for seller.
11. The buyer's bank gives the importer the documents that he can claim the goods against.
12. The buyer receives the documents and fetches the goods from the shipping company or carrier. (Melin 2008, 133)

With the documentary credit, the level of risk is quite similar for both parties. Documentary credit is also the second best choice in terms of risks for the seller. The high level of protection for both parties is probably the reason why letters of credit are the most common method for international payments. The bill of lading plays a significant role in documentary credit transactions as it authorizes its holder to take possession of the shipment. Consistency and accuracy are the most important factors when dealing with documentary credits. Any error, regardless its size, in the documents presented under letters of credit can cause delays or other major harms. (Hinkelman 2009, 13)

## 6 THE IMPORT PROCEDURE

### 6.1 Choosing the Mode of Transport

The international transportation of goods can be executed by land, air or sea, and sometimes the mode of transport is a combination of all these. The transportation of goods has a direct impact on the customer service and cost structure of a company. There are several factors influencing the decision on transport mode. The buyer should consider at least the following factors when choosing the mode of shipment:

- Needed date
- Rates and cost of shipping
- Insurance costs
- The cubic size and total weight of shipment
- Value of goods
- Discharge and destination point
- Possibility of deterioration of the goods or shipping damage
- Handling during the shipment
- Possibility of theft
- Container types and usage
- The amount of required paperwork (Pooler & Pooler 1997, 321-323)

Totally, around 95 per cent of the whole international trade is executed through sea transport mode. During the past decades, the sea transport's share of all the international trade transport in Finland has been around 80 per cent. Also, around 80 per cent of the trade transport in Guatemala moves through ports. (Melin 2011, 197, 209; (KPMG 2008, 38)

Shipping by ocean is the most economical solution for transport mode, especially when shipping bulk. However, the transport times are often longer, and it can be more risky as the goods are more susceptible to deterioration, damage and theft. Also, for example, a strike can cause unexpected damage. (Pooler & Pooler 1997, 326) Finland is geographically situated the way that shipping by ocean is a suitable mode of transport. The sea surrounds the country from many directions, so sea transport is a natural choice. There are over 50 harbors and loading bays handling international transport but in practice, the main part of international transport goes through the ten biggest harbors. (Melin 2011, 209)

In addition to the circumstances in Finland, when we are thinking of exporting products from Guatemala, maritime transport seems like a natural choice for the transport mode. In Guatemala, there are coastlines both in South and East and three main ports:

1. Puerto Quetzal (Pacific)

- Located in the Pacific coast, 98 kilometers from Guatemala City.
- Controlled by the Guatemalan government.
- People are authorized to execute some of the cargo services with tariffs decided with the companies and approved by the government.
- Has the highest load movement, about 47 per cent of the total cargo.

## 2. Santo Tomás de Castilla (Atlantic)

- Located in the Caribbean coast, 295 kilometers from Guatemala City.
- Controlled by the Guatemalan government.
- Due to the success in Puerto Quetzal, has recently began authorizing certain services provided by third parties with the tariffs approved by the government.
- Has the second highest load movement, about 31 per cent of the total cargo.

## 3. Puerto Barrios (Atlantic)

- Located in the Caribbean coast, 295 kilometers from Guatemala City.
- Under contract with the government but operates privately.
- Offers many services supported by private operators.

All of the Guatemalan harbors are connected by roads which enable great circumstances for trade and transport. In Guatemalan ports, the ports services, such as terminal services, are provided by private operators operating under national ports authorities. (Website of Invest in Guatemala 2008)

Land transportation modes can be divided into car transportation and railway transportation. Car transportation can be so on divided into charter traffic and liner traffic. Charter traffic is a mode of transport, where the customer can decide the places of departure and destination. Liner traffic refers to traffic between two places, which is based on regular schedules. Car transported goods are relatively easy and fast to load and unload. However, it is comparatively an expensive mode and may cause a lot of stress on the goods. In addition, there are strict restrictions for working hours and sometimes even driving bans that have to be taken into consideration, when planning to use car transportation. Also the weight and size limitations are very strict compared to sea transportation modes. (Melin 2011, 210, 214)

Car transport is an important part of the textile transport, especially in domestic traffic, after the goods have arrived at Finland. The goods could also be transported by

car from some other European country. However, that would not be very cost effective and would be a very time-consuming option. In practice, railway transportation is not a possible mode for transport when importing textile and apparel products from Guatemala to Finland. Railway transport is usually used in Finland in business transactions with Russia and other eastern countries.

When the requirement for transportation is speed, the item(s) should be shipped by air. Then the costs for packaging, warehousing and insurance are usually lower. In addition, the loss by theft and damage are minimized. However, the air shipments cannot be very heavy or large. (Pooler & Pooler 1997, 321)

In practice, air shipments are not a possible mode for transport when dealing with the textile imports from Guatemala to Finland. The costs of transport would become too high as the textile products are quite heavy, and the benefits would not be that notable. In addition, the speed is not an important factor when choosing the mode of transport for textile imports. The purchases should have been done in time so that there would not be need for such speed.

Transportation costs play a significant role when the total costs of a purchase are calculated together. Choosing the right mode of transport with the best service and the least expense is an essential part of any international business transaction. Especially, when large volumes are transported, negotiating an advantageous contract terms is possible. Transportation is very much negotiable like any other commodity and discounts are common and available. (Pooler & Pooler 1997, 316)

## 6.2 Packaging and Labeling

In this kind of an import process, the seller will most probably handle the packaging. However, it is important to understand the packing requirements, and to know how it is done. It might also be necessary to give the supplier a briefing on packing requirements. The products may be packed in large quantities and they may have to be repacked for the customers in Finland. If the packing is too excessive, the transportation costs will rise due to added weight and bulk. On the other hand, if the goods are



not packed and protected carefully, they will be in danger to get damaged. (Weiss 2008, 134) When the packing of certain products is planned, the different stages of the transport chain should be taken into careful consideration. Transport, handling and storage of textile items is always very stressful and rough, as they are not the kind of products, that would be handled with any special care and caution. (Bhatnagar 2009, 158)

Full Container Load, FCL cargo, is usually the safest and cheapest way of shipping goods. A container is a large, 8-foot wide, metal box, typically 20-foot or 40-foot long. Containers are lifted by cranes to the deck of the vessel at the port of departure and then again, at the port of destination, pulled up and fitted onto the truck's chassis, and then transported to the final destination. Typically, a container is cleaned and checked, then packed, locked and sealed, and sent to its destination. It may not be opened until it reaches the destination country or even the importer's warehouse. When the exporter seals the container, the shipper is fully responsible for declaring the cargo, it is said that the cargo moves under "shipper-load-and-count". Any misrepresentation or giving wrong information is considered fraud. Many containers arrive at ports every day and they are a major concern for port security personnel. New technologies have made it possible to more carefully supervise and inspect the arriving cargo using, for example, X-ray and radio frequency identification. (Weiss 2008, 135-136)

Less than Container Load, LCL cargo means the methods of transport when the quantity of goods is smaller than one container. The container can be then filled with other customers' cargo, meaning that, in practice, the goods are then packed in individual boxes (break bulk) or the boxes are put together with special straps (utilized cargo). The boxes can also be placed in pallets, so they will be easier to move from one place to another. Generally, the smaller the shipment is, the higher the unit cost will be. In addition, a shipment that is packed in individual boxes is in larger risk of being damaged as it can be easily dropped or crushed. Usually, the cargo is packed in the vessel or container the way that what comes out first, goes in last. In practice that means that there can be much heavier items placed on top of much lighter cargo. It should also be remembered, that an important part of packaging are the packing materials; there can be a lot of trouble, and loss of time and money, if the packing mate-

rials are prohibited at the destination country. The trend of today is that many countries have started to take steps towards more environmental friendly packaging which means that using recyclable and reusable materials is recommended. (Weiss 2008, 135, 137-138)

When exporting the products from another continent to Europe, it should be remembered that the standardized pallet sizes in Europe are 1200 x 1000 mm and 1200 x 800 mm. This is important to know, as for example, the shelves at storages are usually designed to suit the standardized pallet sizes. Also the cartons should be the size that they will fit the pallets as effectively as possible, to save space and therefore money. In practice, the dimensions of the cartons have to be smaller than the pallets, as the cartons get easily damaged at warehouses, if the load packed on a pallet is larger than the pallet deck. (Bhatnagar 2009, 159)

In my opinion, the most protective way for transporting delicate textile products would be to transport them inside the container in hangers covered with plastic bags. However, having the products spread like this, would take a lot of space and would be very expensive. The most effective way for packing the textiles for transportation would be to pack them as compact as possible using the cardboard boxes and plastic bags to keep the textiles clean.

The packing materials of textiles should be cheap, as they are going to be removed anyway (usually the products are sold without any packaging to the end-users at the retail stores). The most important thing for the packaging is that it prevents the textiles from getting dirty or damaged, and that it is as economical as possible. The textile products are usually packed in polyethylene bags. Polyethylene is the most commonly used plastic material for packaging. The plastic bags are then packed so on into cardboard boxes that are strong enough so that they will last stacking up and the mechanical friction on the way. There is also a risk of damage caused by insects and humidity, when the boxes are stored at Guatemala, waiting for shipment. Also the container should be properly checked and cleaned, to make sure that there are no insects or rodents to harm the goods. During the sailing of the ship, the textiles are also at the risk of being harmed by stormy weather, waves and humidity. (Bhatnagar 2009, 152-153, 157)

Marking the boxes properly, is important, in order to ensure safe transportation and delivery, as well as, proper handling by the people attending the transport chain. It is vital that all the labels and marks on the boxes are situated at appropriate places, and the way that possibility for misunderstanding is eliminated. Shipping marks include all the necessary information to deliver the boxes to their destination. The marks are the same as in the transport documents. Information marks include additional necessary information, such as quantity, dimensions, information for storage and the buyer's code numbers. Handling marks give instructions for the proper handling of boxes, usually with symbols. All the markings and labels on exported boxes should be legible, durable, visible and communicative. The markings should be readable from distance, preferably written with black. The ink should be permanent and water proof. The markings cannot fade or become smudge during transport. The marks should also be placed at least on two sides of the box; front and back. Last but not least, the marks should be as clear and short as possible. Using the pictorial form is always an effective way to announce important information. (Bhatnagar 2009, 162-163)

The packaging and labeling are important aspects when we want to make sure that we are really going to receive the goods we have purchased. The requirements for packaging could also be marked in the purchase contract, in order to avoid any misunderstandings. That way we can make sure, that in case of a possible disagreement, we can prove how the packaging was supposed to be done, and who was in charge of it.

### 6.3 Customs Formalities and Taxes

As Finland is a member country of the European Union, and the EU is a customs union, there are common customs policies, and common duties for products imported from third countries. When the goods arrive to the European Union area and physically cross the customs, they have to be presented. After the goods are presented, the customs authorities may want to check the goods, for example, in order to determine tariffs or to check their quality. After that, the customs declaration is lodged. The

goods have to be temporary stored if the customs-approved treatment cannot be directly demonstrated. (Figure 6) (Melin 2011, 254, Sneek 2002, 26)

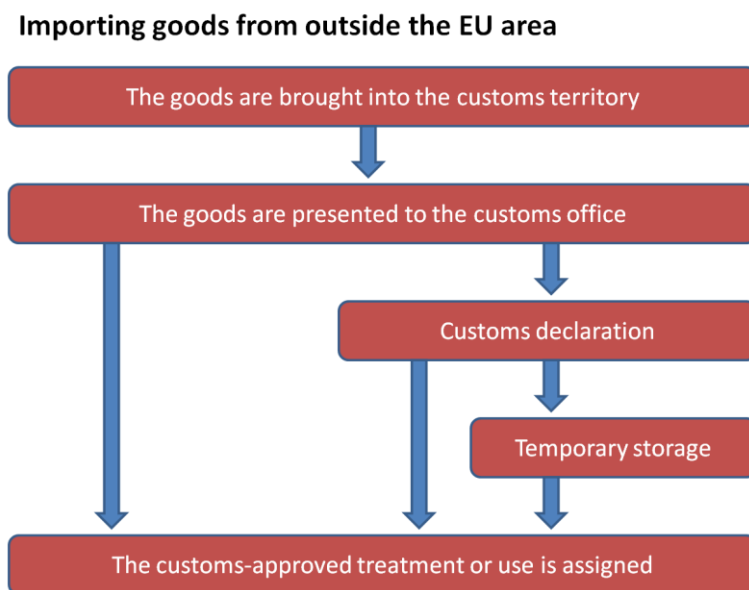


Figure 6. The customs declaration process when importing goods from outside the EU area. (Melin 2011, 254)

Generally, the taxes and duties can be paid directly at the arrival customs. If the importer wants to remove the time of payments until later, the goods can be moved to a temporal warehouse, customs warehouse, or to a free zone. The goods can also go through a community transit when they are moved to customs office where they are going to be cleared. (Website of Finnish Customs 2011)

The forms of customs procedure are:

- Release for free circulation
- Community transit
- Customs warehousing
- Inwards processing
- Processing under customs control
- Temporary admission
- Outward processing
- Exportation

When the goods are *released for free circulation*, they can move freely within the EU territory. It gives the non-Community goods the customs status of Community goods. It also is the most common form of customs procedure. (Melin 2011, 257; Ylituomi 2009)

The meaning of the *community transit* is to make international trade and transportation of goods easier. It means that the goods can be transferred within the customs area without paying the duties or other fees. There are two types of community transit: *External Transit (T1)* and *Internal Transit (T2)*. External transit refers to movement of goods from one point to another within EU area and internal transit means the movement of community goods within EU area through a third country. The documents are marked T1 or T2, based on the type of community transit. (Melin 2011, 262-264)

Imported goods can be temporarily duty-free stored under certain circumstances. The procedure is called *Customs Warehousing*. It is a handful option; for example, when the goods are going to be sold later. Then their duties will not have to be paid right away. The storage time is not limited and there are both, public and private warehouses available. (Melin 2011, 260)

There are three different types of processing that can be applied for the goods in customs procedure: *Inward Processing*, *Processing under Customs Control* and *Outward Processing*. Processing under customs control means that the goods go through some kind of processing under customs control, in customs territory, without being subject to import duties. After processing, goods will be released for free circulation, and the appropriate rate of import duty will be charged. Inward processing can be applied on goods that will be re-exported after processing. Then there will be lower duties or no duties at all. Outward processing refers to the process where community goods are temporarily imported outside EU customs, and released back to free circulation after the processing, either duty free or with lower duties. (Ylituomi 2009)

*Temporary Admission* refers to *Temporary Importation*. It means that non-Community goods can be used in the EU area partly or totally released from duties, as they will be re-exported. Processing is not required. *Exportation* refers to Community goods that leave the territory permanently. (Ylituomi 2009)

The Finnish customs levy national taxes and taxes based on the harmonized European Union system. The most common forms of taxes, when importing goods from outside the EU area, are customs duty and the value added tax (VAT). In addition, when importing products like alcohol or cigarettes, the importer has to levy excise tax. However, as the excise tax is not applied in the import process handled in this thesis, it will not be further explained. (Website of Finnish Customs 2011)

The duty rate will be determined by tariff classification of goods. Generally, the duties are calculated as percentages of the value of goods. In practice, the holder of the goods gives the tariff codes independently, and the authorities confirm the information by giving the clearance decision. The importer gives the information on tariffs and value of goods with the customs declaration and requisite attachments. (Melin 2011, 273) Further information on the customs declaration and other documents is in chapter 6.4.2 Import Documents.

The value added tax (VAT) is levied on any goods imported to Europe. The VAT is 23 per cent of the value of goods on textile items and clothes. The VAT value is the customs value + duty and other charges. When the goods are imported from outside the EU area, the VAT is levied during customs clearance. (Melin 2011, 273) At the Guatemalan end of the import chain, the exported goods are exempted from the local VAT (12%). However, the exporter has to file monthly requests for the Central Bank in order to have access to the reimbursement system. (Website of Invest in Guatemala 2008)

The filing for the VAT exemptions is something that should be carefully negotiated with the seller. It would probably be done by the seller due to the language barriers and location. However, it is important to know that they will not be paying VAT in order to avoid the risk of getting short-changed.

#### 6.4 Trade Documents

In foreign trade, there are several different types of documents that have to be handled in order to be able to manage any business transactions. The documents have several meanings and they give information and instructions to several parties involved. They serve as well for the seller and the buyer, as the shipping and/or logistics firms, and banks. In addition, they give the countries of import and export regulatory compliance, census and taxation information. (Hinkelman 2008, 1)

Even if in a modern-day business life, most of the documents are handled electronically, the number of documents has not diminished. In fact, the number might have even grown. It has been calculated that handling of one single international business transaction acquires approximately 40 different documents and that there can be 27 different parties handling them. (Melin 2011, 84) Because of the electronic revolution, the documents can be created much quickly than before. Even if that makes it much more efficient, it also multiplies the harm if something goes wrong. For example, one misspelling or a false number can be copied into several different documents before anybody notices the mistake. On the other hand, it is the people that usually make the mistakes, and the computers copy the information just the way that people have input it. Therefore carefulness is extremely important when drawing trade documents. (Weiss 2008, 164)

Fluent movement of goods and payments can be secured with correctly composed documents. Composing and purchasing the documents can also be quite expensive and time-consuming, so it should be confirmed that the documents composed are the correct ones. There are several factors influencing the number and type of documents needed in each transaction. All the information presented in documents should be accurate, unambiguous, easy to find, and inclusive. (Melin 2011, 84) Sometimes documents and their contents also have to be confirmed by a local Chamber of Commerce. Most commonly confirmed documents are commercial invoice, certificate of origin, waybill, bill of lading and documentary credit documents. (Ylituomi 2009)

In this chapter, the trade documents are presented based on the division of documents required for export and import practices. However, naturally, many documents are required at the both ends of the trade procedure. Often trade documents are also divided into two other categories; commercial documents and transport documents.

#### Commercial Documents:

- Invoice
- Packing List
- Bill of Exchange (=Draft)
- Documentary Credit
- Phytosanitary Certificate

#### Transport Documents:

- CMR (International Waybill)
- Forwarding instructions
- Booking Note
- Bill of Lading
- Certificate of Origin
- Certificate of Insurance (Ylituomi 2009)

In this thesis, only the most important documents that can be used in the textile import process from Guatemala to Finland will be handled in more detail. Further, due to the nature of the topic of this thesis, the weight is on the documents that are needed in the customs formalities of importing and exporting. For example, many banking documents, or documents between Transport Company and exporter/importer, will not be handled in this thesis.

#### 6.4.1 Export Documents

The Guatemalan government, as all the governments in the world, wants to know what is exported out of their country. They need documents to collect this information for statistical purposes and to control trade. Information on the movement of



goods is essential in the restriction of exports. The documentation also helps in preserving the power of bureaucrats and maintaining employment. (Weiss 2008, 182)

According to the Doing Business 2011 Report (A co publication of The World Bank and the International Finance Corporation), it takes approximately ten days to prepare all the documents that are required for export formalities in Guatemala (Website of Doing Business 2011). Even if the main responsibility of handling the required documents lies on the seller, the most important documents will be handled here briefly. Also many documents can be required in addition of export, to other purposes, such as shipping, import formalities and banking. (Hinkelman 2009, 56)

*The commercial invoice* is issued by the seller and the buyer will make the payment based on the information on commercial invoice. It is an important document also for the customs authorities, the carrier, the freight forwarder and other parties involved. The commercial invoice is often the basis for the other documents. In order to prevent multiplying the errors in other documents, the commercial invoice should be drawn up with care and without any mistakes. (Melin 2011, 89)

The commercial invoice should at least include the following information:

- Information on the seller and the buyer and the addresses of their registered offices
- Identification numbers including things like the invoice number, the date and the shipping date
- Information on the packages of goods (marks, numbers, quantity, description and weight)
- The terms of delivery and payment
- The mode of transport
- Complete list and description of the goods (quantities, prices and possible discounts)

In addition, export invoices often include the information on the country of origin of goods. (Hinkelman 2009, 58; Melin 2011, 110)

The original version of the commercial invoice should always be delivered to the buyer. In addition, other parties will need to receive their copies. Often the forwarder, insurance company, customs authorities in both countries, and banks need their copies of commercial invoice as well. (Melin 2011, 90)

*Bill of lading (B/L)* is the key transportation document. It is issued by the carrier to a shipper (exporter or seller), and it is at the same time a receipt for merchandise and a contract to deliver it as freight. It is also a title document, as the holder of the bill of lading can claim possession of the goods. The bill of lading indicates that the goods have been received or loaded into the vessel. It is a proof of a sea transport contract. (Hinkelman 2009, 58; Melin 2011, 203) Simply put, the carrier commits to give the goods to the person who at the place of destination presents the original bill of lading. In another words, the original bill of lading indicates the ownership of goods. Today, bill of lading can also be in an electronic form when it is under secret codes or keys. (Website of Suomen Kuljetusopas 2012)

In practice, in international trade today, the bill of lading is mainly used when the documentary credit is the method of payment. Otherwise, the bill of lading has been replaced by other shipping documents. A *Liner Waybill (LWB)* is one example of a transport document that has replaced the bill of lading, especially when the destination between the seller and the buyer is short and the transportation is fast. (Melin 2011, 205)

*The customs export declaration* is issued by the exporter (seller) to the export authority. It is required by the country of export authorities in order to control the exports, assess the duties and to gather information for trade statistics. In some countries, the export declaration must be certified by the export authority. The form and name of the export declaration can vary significantly from one country to another. However, typically it includes the following information:

- Information on the seller and the buyer and the addresses of their registered offices
- The date of issuance
- Description and quantity of the goods (weight and number of packages)
- Country of origin
- Country of final destination
- Shipping marks and numbers
- Statement that the goods will not be diverted to another country contrary to the laws of the exporting country (Hinkelman 2009, 60, 66)

Another form for governmental authorities to control their exports, for political, economic and security purposes, is an *export license* or a *permit*. An exportation of a product may be banned for certain countries, or exporting may be permitted only under certain conditions. A general export license or permit allows exporting any goods and a specific license or permit only allows exporting certain specific goods. The export license/permit is issued by the export authority. (Hinkelman 2009, 60, 66)

*Packing List* is issued by the seller and it is often attached to the side of the package in a plastic folder. It typically includes the same kind of information than an invoice, identifying the consignor (exporter/seller) and consignee (importer/buyer), total quantity of packages, package and container contents, weights, dimensions, marks and numbers. However, unlike in an invoice, in a packing list the prices are usually deleted and the shipping details are added. Packing list is not usually required but it is a useful tool for the consignee to check that all the goods have been delivered and received. (Hinkelman 2009, 58; Melin 2011, 92-93)

*The certificate of origin* is usually required by the authorities at the import destination but in some cases it might be required by the export authorities as well. The purpose of this document is to declare the country of origin of the goods shipped, and it is issued by the exporter/seller or the local exporting country chamber of commerce. (Hinkelman 2009, 58) The certificate of origin will be further explained in the section of import documents.

According to the Doing Business 2011 Report, in addition, there can be several other documents that are required when exporting products from Guatemala. These documents are: *foreign exchange authorization, inspection report, technical standard or health certificate and terminal handling receipts*. (Website of Doing Business 2011)

I would recommend that when starting business transactions with Guatemalan partner, the seller would take care of at least most of the export documentation. Especially in the beginning, the knowledge and expertise of the seller should be used in order to save valuable time and money. There is no point for us to rush and try to take care of these things, as we have no further experience, and therefore no knowledge on how the things should be handled.

#### 6.4.2 Import Documents

Just like the governments want to collect information on the exported products, they also want to know what products are imported into their country. When importing textile products from outside the EU area to Finland, the main responsibility of the documents lie on the seller but there still are several import documents that have to be taken care of.

When importing goods to Finland, *the customs declaration* is issued by the importer or his representative. The declaration can be given using a SAD-form (Single Administrative Document) or using electronic messaging and an EDI-form (Electronic Data Interchange). The contents for either one of these methods are very similar. The third method for giving the customs declaration is an online service. It is very convenient, especially when importing relatively small and cheap quantities. When using online services, the customer does not have to visit the customs, and the duties can be disbursed through the online banking services. When the customs declaration is given with a SAD-form, the document is delivered to the customs office nearest the location of goods at issue. There should be appendices, such as, the commercial invoice attached. To save time and make the procedure more convenient, the customs declaration can also be filled out using the Finnish customs website [www.tulli.fi](http://www.tulli.fi) and then printed out on carbonless paper. The message-based transactions between com-

panies and customs mean electronic data interchange (EDI). This system can be used through the operators that the customs have authorized or directly through internet. (Website of Finnish Customs 2011)

Filling in the customs declaration forms are much easier and more fluent if the TARIC codes and their possible restrictions or limitations have been ironed out in advance. Checking the possible embargoes and import restrictions as well as acquiring the needed import licenses should have been done before even starting the import process. The possible *import licenses* are issued for the customs authorities at the same time as the customs declaration and commercial invoice. (Website of Finnish Customs 2011)

Often a formal document, called *the certificate of origin*, is needed to prove the governmental authorities where the goods are originated. This is because sometimes exporters try to falsify the origin of goods in order to, for example, pay lower taxes, to avoid quotas, or to benefit from the GSP system. (Weiss 2008, 184) The certificate of origin that is used to apply for the GSP preferences is called Form A. Form A is issued by the seller in the developing country. An important factor with the Form A is, that it has to be confirmed by the authorities in the exporting country, in order to be legitimate. (Melin 2011, 111)

A copy of the *commercial invoice* has to be attached with the customs declaration. The commercial invoice is issued by the seller (exporter). The rules for the content of the commercial invoice, when importing goods to Finland, are set in the customs Act. (Melin 2011, 110) Its contents are further explained in the chapter handling the export documents. Another form of an invoice is a *pro forma invoice*. It states the price and the goods but it is not meant to be actually paid for. Pro forma invoice is used in connection with an import license application, documentary credit, or when non-valuable goods are exported. (Ylituomi 2009)

*Declaration of dutiable value* is given with a bipartite form D.V.1. The customs authorities need the information on the market value of the goods to be able to calculate the duties. The market value is the real price that is paid on goods when they are sold for importation to the EU territory. Customs value includes the transport, insurance,

loading and handling costs. Today, The declaration of dutiable value is not very common as it is not necessary if the customs clearance is handled electronically, the value of the goods is less than 10.000 Euros, or if the goods are duty free. (Melin 2011, 109, 273)

In order to be able to handle all the customs formalities correctly, we should make sure that the documents include correct information and that they are in the required form. We should also make sure that the seller delivers us the documents that should be issued by him.

## 7 CONCLUSIONS

### 7.1 Recommendations

When importing textile and apparel products from Guatemala to Finland, there are several aspects that should be taken into consideration. The export process at the Guatemalan end of the import chain requires many documents, and careful work, but is manageable. The easiest way for managing the export process, at least in the beginning of co-operation, would be to trust the practical aspects for the seller, as he has a better knowledge on the local customs and moreover, language.

The restrictions and standards for importing the products to Finland are quite strict but however, manageable. The requirements for packaging and labeling should be carefully considered, as well as the considerably strict requirements of the textile industry. During the import process, there can be several challenges. The best way to prevent and manage these challenges is to pay special attention on the terms and conditions of the contract of purchase.

As we are doing business with a supplier from a developing country like Guatemala, an important thing when planning the import strategy is to minimize the risks. When choosing the transport modes and the payment and delivery terms, minimizing the risks should be the biggest screening method. Even if the risks have not been handled

in this thesis, it sort of goes without saying that there is a high level of crime and corruption in Guatemala, and in practice, anything could happen.

In this chapter, I am going to give my own recommendations for handling a textile import process from Guatemala to Finland. I will also describe an import flow with recommended terms and conditions, in order to give a practical image on what would happen in a real life situation. All the analysis and conclusions in this chapter are based on my own views and perceptions. These recommendations are based on a fictional importing process of 100 pairs of jeans (95% CO, 5% EA) for women, 60 pairs of jeans (95% CO, 5% EA) for men and 120 pieces of 100 % cotton unisex T-shirts from Guatemala to Finland. All the goods have been manufactured the way that they will pass the strict textile requirements in Finland. The clothes have also been labeled the way that they include all the necessary marks on sizes, care instructions etc. We have also agreed on the packaging and labeling of the goods with the seller, and the seller is aware of the restrictions and standards in Finland.

After finding the supplier, the quotation process, and negotiating the terms and prices, the import process can begin. After giving the order, the seller should be asked to send the order confirmation. The order confirmation should include the description of goods, price, possible discounts, the terms and time of delivery, and payment terms. The order confirmation can act as a basis for the final contract. The terms and conditions of the contract should be considered carefully. The main thing is to understand what is being agreed on. After the contract has been signed, turning back is not an option. It is important to highlight any controversial issues, as it will be too late after the contract has been sealed.

The cheapest, fastest and most suitable mode of transport would be sea transport. Air transport would be faster but as we are in no rush, and the price of the transport with such a heavy cargo would become too high, we can make the decision of transporting the goods by sea. We also know that the circumstances for maritime transport are quite idealistic, so in the end, sea transport seems like the only suitable option. We decide that the goods will be transported from the seller's warehouse to the port of departure by truck, and then loaded into a vessel, and sea transported with an ocean vessel to Europe, and so on with a feeder to a Finnish port. After the goods have ar-

rived in Finland, they are transported from the port of destination to our own warehouse by truck.

After making the decision on the transport mode, we have to negotiate the terms of delivery. In this thesis, we have used the Incoterms® 2010 so far, and we will use them here as well. As listed in the chapter 5.1, there are several factors influencing the decision on the terms of delivery.

#### 1. Knowledge

- The main thing is to understand what we are about to agree on.
- We should also make sure that the seller understands what they are promising, and that he will be able to complete his responsibilities. If something goes wrong, we are losing time and money, and it really does not matter who is liable at that point. The lost time, money and effort cannot be replaced.
- The seller has a deep knowledge and he has gained practical experience in operating in Guatemala, we have not.
- The seller is familiar with safety risks and other practices (including corruption).
- The seller knows how to handle insurances, transport and loading in Guatemala.
- We know how to handle things in Finland.
- It would be wise to choose the term of delivery the way that the expertise and strengths of both parties would be used.
- If we take the aspects listed above into account, the possible options for terms of delivery would be: CFR, CIF, CPT, CIP and DAT.



## 2. The transportation policy of the company

- If we would be able to control the whole supply chain, we would gain a lot of benefits, including controlling issues, improvement of the conditions in insurance, forwarding and carrier contracts, and the possibility to impact the transport chain, for example, improving the speed.
- However, in practice, when we are just beginners in this business, and we are probably operating with large factories in Guatemala, we are not able to rule the decisions.
- In the beginning of the co-operation, we have to be flexible in the negotiations and settle for some terms the opposing side suggests. In future, when our business has grown we have much better prerequisites to dictate the conditions.
- It should still be remembered that being too wide-eyed can also backfire. Careful evaluation and background check is always necessary, whether we are operating with a large or a small business partner.

## 3. The previous practices

- The seller might want to stick with the methods they are used to. If they have previous experience of exporting their products to Europe, it might be a good idea to do what has been discovered to be practical.
- On the other hand, if the seller has previously only done business with North and South American buyers, it is crucial to make sure that he understands that the same terms of delivery are not necessarily practical when transporting goods from Central America to Europe.

#### 4. The volume of transport

- Usually, the company who has better relations with the transport line or insurance company gets more competitive prices. In this case, almost certainly neither of us has any previous experience in operating in the other's country.
- Probably the seller will be able to get better prices in Guatemala, and we will be able to negotiate better prices and discounts in Finland.
- Due to the volume of transport reasons, the best choices for the terms of delivery would be CFR and CIF.

#### 5. Government policies

- In my opinion, it would be the wisest choice to handle the customs formalities in Finland. When we handle them ourselves we can be sure that everything will be taken care of and we can control the speed and procedures.
- The seller is probably more familiar with the customs procedure in Guatemala so it would be wisest to leave that for him.

We have now narrowed down the possible terms of delivery into CFR and CIF. Both of these terms are used in international trade for waterway transport, so they are suitable. At this point, the seller has probably further experience in foreign trade and therefore he is able to negotiate better discounts, so we should leave that for him.

In practice, the only difference between CIF and CFR is the insurance. In both cases, the seller will pay for the freight but the risk of loss or damage to the goods will be transferred to us after he has delivered the goods on board of the vessel. However, in CIF, the seller has to procure marine insurance against the risks. As we are new importers, and have no previous experience in operating with Guatemalan business partners, choosing CIF would minimize our risks, as we could operate under the cover of insurance. On the other hand, we have to remember that the seller is only obligated to take the insurance with the minimum coverage. If we feel like the minimum

coverage is not enough, we should negotiate with the seller for something else, or go with CFR and take care of the insurance ourselves. However, I think that at this point of the business, we should start to negotiate with the seller trying to persuade him into agreeing to CIF, Cost, Insurance and Freight, as the term of delivery. In order to make sure that the form is correct in the contract of purchase, there should be written: "CIF Koulukatu 12 Turku Finland Incoterms® 2010". We can also claim that the seller procures the insurance from a dependable, high-class insurance company, and that the policy conditions are as broad as possible. Also these conditions should be written in the contract of purchase.

Another important issue to decide is the payment terms. In addition to the actual terms, there are several other payment related aspects that should be taken into consideration. However, as the financing and further evaluating on bank and insurance related issues have been limited out of this thesis, they will not be further compared here. I will only say that opening a foreign currency account would be a great choice in order to manage the currency risks and take care of payment transactions. The terms of payment should be negotiated in an early stage of the negotiations before putting together the actual contract of purchase. They have a significant influence on risks and costs.

Naturally, if we could make the decision, we would choose open account where the supplier would deliver us the goods first, and then we would make the payment. However, this is probably not something that the seller is willing to do. If he could make the decision, he would probably want the payment in advance, and he would deliver the goods after receiving his money. However, as we know that Guatemala is a country of high political and other risks, it is not wise from us to consent in such proceedings. Also, the economy of our business should be relatively good before we can make any advance payments in order to avoid major cash crisis. The trade should be based on mutual trust and respect with the trading partner. However, as the parties here in this example, are not that familiar with each other yet, they cannot be expected to trust each other that deeply, compared to if they had been doing business together for years.

The reasons listed above leave us with three choices; Documents against Acceptance (D/A), Documents against Payment (D/P) and Documentary Credit (D/C). When comparing D/A to D/P, it can be noticed that D/A would allow us a longer payment time, and D/P would require us to pay for the goods immediately. If we would choose the D/A, we would make sure that we are not paying before the goods have been delivered to Finland. A D/C is a bank-to-bank commitment in favor of the seller, and therefore a safe option. However, D/C is a more complicated option, and the costs are relatively high. In addition, it is more beneficial to the seller than to the buyer. If the seller is willing to give good discounts for us for approving the Documentary Credit as the payment term, we could accept it. However, my recommendation would be to claim for the D/A as the payment term in the negotiations.

## 7.2 Import Flow with Recommended Terms

In this chapter I will describe the import flow of a fictional import process. The terms and conditions are based on the decisions that were made in the previous chapter, recommendations. We have already gone through the process of enquiry, quotation and negotiating with the seller. We have agreed on the terms of delivery and payment, the schedule, and the seller is well aware of the standards for the products and packages.

1. The seller sends us the contract of purchase to be checked and verified.
  - We check the contract:
    - The company information on both parties is correct.
    - Description of goods: 100 pairs of jeans (95% CO, 5% EA) for women, 60 pairs of jeans (95% CO, 5% EA) for men and 120 pieces of 100% cotton unisex T-shirts. The accurate size assortment, names or identification numbers of goods, other important details and guarantee conditions are included.
    - Packaging regulation is written in the contract.
    - The terms of delivery: CIF Koulukatu 12 Turku Finland Incoterms® 2010 is written in the contract.

- The seller's obligation to procure the insurance from a dependable, high-class insurance company with broad policy conditions is written in the contract.
  - The time of delivery: July 2, 2012 is correct.
  - The price including possible discounts is included.
  - The terms of payment: D/A (Documents against Acceptance) 90 days after sight is correct (we were able to negotiate a long payment time).
  - The information on the buyer's bank is correct.
  - How to solve possible disagreements is also written in the contract.
- Everything seems to be in order, so we can sign the contract.
2. We return the seller's copy of the contract with our signature on it.
  3. The seller makes the contract of carriage with the carrier.
  4. The seller gives the insuring instructions for the insurance company.
    - The insurance company sends the insurance policy and certificate to us. As we are operating with this supplier for a first time, we should claim for the insurance policy as well, as it is more accurate.
    - We check carefully that everything is in order.
  5. The seller sends the goods and documents to the freight forwarder.
  6. The seller sends us the pro forma invoice and other needed documents.

The goods have been manufactured the way that we agreed on, with agreed labels and packed in plastic bags. Then the clothes have been so on packed into cardboard boxes, labeled properly, and placed on pallets. Altogether, there are 16 boxes on two pallets. This means that we have a LCL cargo (Less than Container Load), and the shipment is relatively more expensive than if the container would be full. However, this is not our problem; the seller has been aware of this and has given us the price based on that information. The seller has taken care of the transport from his premises to the port of Santo Tomás de Castilla and the goods are ready for the loading.

7. The seller takes care of the export documents and customs formalities in Guatemala.
8. We start preparing for the arrival of goods and customs clearance.
9. The seller (or freight forwarder) receives a bill of lading signed by the carrier.
10. Then the seller sends the documents and the draft with his signatures to his bank.
11. The seller's bank sends the documents to our bank.
12. Our bank notifies us when they have received the documents.
13. We accept, sign the draft and receive the documents.
14. The goods are loaded on the vessel.
  - The liability of risks is now transferred.
  - If something happens to the goods after this point, we will bear the risks but we do have a valid insurance.
15. The goods are sea transported to the port of Naantali, Finland.
16. The goods and documents arrive.
17. We give the documents we received from our bank to the carrier and receive the goods.

We should make sure that the seller delivered us the certificate of origin and other documents that are required for the customs procedure. We should have figured out the TARIC codes for the goods beforehand and also made the arrangements for transporting the goods from Naantali to our premises in Turku.

18. We present the goods to the customs authorities when they physically cross the customs.
  - The customs authorities can check the goods if they think it is necessary.
19. We lodge the customs declaration; the easiest way is to use the online service.
  - The TARIC codes are:
    - Men's jeans: 6203 42 31 00
    - Women's jeans: 6204 62 31 00
    - T-shirts: 6109 10 00 00
  - We deliver the required documents for the customs authorities, including the certificate of origin.

- According to the GSP+ system, the importation of textile products is duty free.
  - We will pay the VAT (value added tax), 23 per cent of the customs value, and other charges (for example, transport costs).
20. The customs authorities release the goods for free circulation.
  21. The goods will be transported to our warehouse.
  22. We check the goods as soon as possible to make sure that everything is in order and that the correct goods have been delivered.
  23. We make the payment, at the latest, 90 days after the documents have arrived.
  24. Our bank transmits the money to the exporter's bank.

### 7.3 Thesis Process Description

The idea for the topic of this thesis has started to evolve over a year ago, when a friend of mine was telling me about the textile industry in Guatemala and his business contacts in the area. We soon realized that we should start considering common business operations. He has the needed contacts and cultural know-how, and I have the required knowledge of textile industry and international trade. The project however went through a major setback after my business partner became a victim of an armed robbery when visiting the country.

After the incidence, we both sort of lost interest towards the project, as we realized that how heavy the safety issues would really be in practice. Neither of us was willing to proceed with the business plan if business transactions would acquire risking your own life. However, the possibility of this business has never really left my mind, and I started to think that I could examine the possibilities for my bachelor's thesis. Internet has made it possible to conclude business deals today without ever even meeting the business partner in real life, and if the partners are professional and know what they are doing, anything is possible. In addition, safety is a relative issue, and anything could happen anywhere you go. Instead of being scared, we should concentrate on being careful.

When I started my thesis project, I first presented my ideas for the supervisor. However, we soon noticed that I had enough ideas to write at least three bachelor's thesis. The idea of purely concentrating on the procedural issues of the import process seemed like a natural choice. I believed that finding out how the import process goes in practice, would be a major step towards finding out if there would be any idea in doing business with Guatemalan partners. After finding out the practical aspects, solving the rest of the problems and questions will be easier. Next, after this thesis process is completed, I can start to focus on issues like the business culture in Guatemala, choosing the supplier and the right products, risk management and marketing of apparel products in Finland. Hopefully, I will someday proceed into writing an actual business plan and starting my own business. On the other hand, even if my Guatemalan textile import process would never be actually executed, I have gained a strong knowledge on customs formalities and textile requirements for any international trade practices in the apparel industry.

The strict topic definition, and listing the issues that were not going to be handled in the thesis, turned out to be a great tool for the writing process. When I was able to draw the lines on issues that would not be handled in the beginning of the process, I managed to keep myself from prattling and concentrating on irrelevant issues. After I had made the final decision on the topic, I started my thesis process by laying the research plan. My supervisor helped me a lot, especially when I struggled with setting the schedule. Laying the research plan was a helpful tool when collecting information about the topic. As I had already made strict limitations on the issues that were going to be handled, and the issues that were not, I was able to concentrate on searching relevant information. Also after drawing the figure, conceptual frame of reference, I was able to perceive how I should proceed.

When the framework of the thesis had been set in the research plan, it was quite easy to begin the actual writing. When I was writing the theory, I tried to keep my own thinking as practical as possible, in order to be able to think the practical issues that should be considered when importing textile products from Guatemala. I wanted to tie the theory and the practical aspects together the way that each chapter would include both. I thought that the practical approach would keep the reader interested, and would prevent the theory from being too boring to read.



Finally, I wrote the last chapter, conclusions, in which I gave my recommendations and described the import process as practically as possible. Writing the last chapter was surprisingly easy, as I had learnt a lot while writing the theory, and had become sort of an expert on many issues. The points I learnt when writing the final chapter, will definitely become important when I am doing the business arrangements in the future. The information in the final chapter can also be very useful when planning any international trade transactions. Therefore, I believe that this thesis can be useful for many people interested in international business transactions or importing goods.

Altogether, after making the final decision on the topic, my thesis process took about 5 months, which was a little more than I had originally estimated. In my opinion, the stage from the introductory seminar to the development seminar was the hardest, as it included a lot of work, in terms of data collection and analysis. All in all, I am very proud of the work I have done and the effort I have given to this process. I strongly believe that writing this thesis will be very beneficial for me in the future. I will definitely keep on working towards the business plan, and I am sure that my business idea can be worth realizing.

During the thesis writing process, I became especially interested in risk management aspects, and I definitely want to start examining issues related to that next. I have also started to make preliminary considerations on marketing issues and choosing the distribution channels in Finland. I have previously been through an education on fashion design, so ideas for purchases and the collection of clothes run through my mind continuously. We will see what the future brings, but at this point I can note that I am on a right track.

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INCOTERMS® 2010

Rules for Any Mode or Modes of Transport

*FCA, Free Carrier* means that the seller is responsible for delivering the goods to the carrier named by the buyer. The seller is also responsible for the export formalities and documents. The buyer is responsible for the carrier and the contract of carriage, transportation costs and the import formalities. The liability for risks is carried by the buyer since the goods have been given to the carrier.

*CPT, Carriage Paid To* obligates the seller to clear the goods for export and to deliver them to the carrier named by the seller. The seller is also responsible for paying the freight to the agreed destination and for delivering the documents to the buyer. The buyer is responsible for the risks after the goods have been given to the first carrier and for the import formalities. The place of destination and the place of destination where the risks are transferred to the buyer should be clarified in the contract of purchase as precise as possible.

*CIP, Carriage and Insurance Paid To* means that the seller clears the goods for export, delivers them to the carrier named by the seller at a named place of shipment. In addition to the transportation costs, the seller is responsible for procuring insurance for the buyer to the named place of destination. It should be remembered that the seller is only responsible for a minimum insurance coverage. If the buyer wants a wider coverage, he should agree about it with the seller or to make his own insurance proceedings. The buyer is responsible for the risks after the goods have been delivered to the first carrier.

*DAT, Delivered At Terminal*, and other terms in the group D, give the seller responsibility for all the costs and risks until the goods are delivered at the destination. When the term of delivery is DAT, the seller clears the goods for export. The buyer is responsible for the risks and costs as well as the import formalities after the goods are delivered to the terminal at the named place of destination.

*DAP, Delivered At Place*, is very similar to the term DAT. In practice, the only difference between these two terms is, that with DAP, the seller is responsible for the goods until they are delivered to the place of destination, not unloaded. The buyer is responsible for unloading the goods and clearing customs to import into the country of destination.

*DDP, Delivered Duty Paid* is the last term that is suitable for all the modes of transport. With DDP, the seller is responsible for all the costs and risks associated with the delivery of good to the place of destination. The seller is also responsible for the customs formalities. The buyer is responsible only for unloading the goods. DDP represents the term of delivery of the maximum responsibilities to the seller. The buyer and the seller can make some divergent agreements, for example, about some payments during the customs clearance in a contract of purchase. For example, the buyer and the seller can agree that the buyer is, in spite of the delivery term, responsible for the payment of the value added tax. (Melin 2011, 63-70)

### Rules for Sea and Inland Waterway Transport

There are four terms in the Incoterms 2010 collection that are suitable for waterway transport modes only. These terms are briefly presented here to explain their differences and salient points. However, the precise description for all the terms of delivery should be carefully examined from the publication of “Incoterms® 2010” by the International Chamber of Commerce before making any permanent solutions.

*FAS, Free Alongside Ship*, means that the seller is responsible for clearing the goods and that he has delivered them when he has set them alongside the vessel at the named port of shipment. The seller also has to deliver the buyer documentation, for example a bill of lading, to prove that goods have been delivered. The buyer is responsible for all the risks and costs from this point forward, including the transport and importation costs.

*FOB, Free On Board*, is very similar than *FAS*. In practice, the only difference is that with *FOB* term, the seller has fulfilled his responsibilities when the goods are delivered onboard the vessel at the named port of shipment.

*CFR, Cost and Freight*, gives the seller responsibility of making the contract of carriage. It means that the seller is responsible for all the costs of freight until the goods are delivered to the port of destination. However, the risks for goods are assumed by the buyer since the goods have been delivered onboard the vessel at the port of shipment. The seller is responsible for the export clearance and the buyer for the import clearance.

*CIF, Cost Insurance and Freight*, is very similar to *CFR*. In addition to the responsibilities listed with *CFR*, the seller has to take insurance for the risks that might happen to the goods during the transport. However, the buyer has to bear the risks, even if the insurance is covered by the seller. It should be remembered that, just like with *CIP*, the seller is only responsible for a minimum insurance coverage. If the buyer wants a wider coverage, he should agree about it with the seller or to make his own insurance proceedings. (Melin 2011, 70-74)