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SERVICE LEVEL AGREEMENT

Case Study Arla Oy

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Tämän opinnäytetyön aihe oli luoda Arla oy:lle palvelutasosopimuspohja, jota he voisivat käyttää yrityksessään sisäisenä sopimuksena. Arla oy tarvitsi palvelutasosopimuksen (SLA) meijerien väliselle tavaraliikkeelle. Tutkimusongelma oli selvittää mikä on SLA, mitä sen tulisi sisältää ja mitä kansainväliä kauppasopimuksia tulisi ottaa huomioon luodessa SLA:ta.


Avainsanat: Palvelutasosopimus, kansainvälistet kauppasopimuks, WTO, EU
The objective of this thesis was to create a service level agreement template for Arla Oy, which they could use as an internal agreement. Arla Oy needed a service level agreement (SLA) for the flow of goods between dairies in Europe. The research problem was to find out what an SLA is, what it should consist of and what international agreements should be taken into consideration when creating a SLA.

In the theoretical study I examined different international trade agreements. The first section dealt with international trade agreements in general and what the typical sectors for an agreement are. The second section looked at the WTO and its agreements. In the third part the EU and the most important trade agreements that it currently has with other parties are being discussed.

The empirical study described how the template was created and how the template is formed and what it includes. The last chapter summarized the thesis process.
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1 INTRODUCTION

1.1 The research problem

The research problem was to find out what agreements are needed between internal shipments between various dairies. Arla Oy is doing internal shipments where they transfer goods from dairies around Europe to Finland. For this the thesis examined different international trade agreements from the EU and the World Trade Organization.

1.2 The goal of this work

The goal of this thesis is to create an SLA agreement template for Arla Oy, which the company can use and adapt in future internal shipments between dairies that are in different countries. The agreements will be made between a dairy in Finland and dairies in Germany, Sweden and Denmark.

1.3 Restrictions

The thesis has been restricted into 5 service level agreements that are internal documents for Arla Oy. The theory has been restricted into international trade agreements and how trade agreements actually function in practice. The international agreements have been restricted into agreements that handle the WTO and the EU. Thus the theory part will only cover international agreements that may have an impact on these SLAs.

1.4 The target company

The target company, Arla Oy is a dairy company. It was founded in 1923 by Hjalmar Ingman. In 2008 it was bought by Arla Foods Amba and it became a subsidiary for the company. Arla Foods is a large international dairy founded by Swedish and Danish farmers. Arla Oy produces different dairy products such as, yogurts, butters, quarks, cheeses and others. As well as selling domestic products they sell products that Arla foods has produced. (Arla 2018 a; Arla 2018b)
Arla refines approximately 280 million liters of milk every year. Arla Oy has approximately 400 employees in Finland and 10 milk processing plants including co-operation dairies. The market share in Finland is approximately 23 % and their revenue in 2016 was 314,4 million euros. The company’s biggest competitor in Finland is Valio Oy. (Arla 2018b; Arla 2018a)

1.5 The research questions

The research questions were:

- What is a typical SLA agreement?
- What does an SLA agreement contain?
- What other international agreements should be taken into consideration?

1.6 SLA

SLA (service level agreement) is usually made between a service provider and a client. They can be used in every industry and their content is based on the service in question. The SLA is structured so that both parties are satisfied with the terms of the agreement. Essentially the agreement displays what the client can expect from the service and what will be provided by the service provider and on which service level. The contract provides for the client transparency and realistic expectations about the service level. (Palo Alto networks 2018)

The agreement can function both as an external and an internal agreement. In a typical SLA there is first a description of the service in question, the responsibilities and the roles of the participants and the specified service level. It should also be mentioned what procedures will take place in case if the service level does not reach the required level. (Technopedia 2018)

1.7 How the work continues

The empirical section of the thesis will examine the SLA-template created for the transaction between the dairies in Finland and in Sweden, Denmark and Germany.
It will present the different areas that the contract has and justify why they are in the agreement and what they do. The research methods will also be explained. The last chapter, the conclusion of the study, will shortly describe the whole thesis process.
2 TRADE AGREEMENTS

A trade agreement should be based on the objectives of both parties involved in the agreement. How detailed the agreement will be is based on the objectives of the parties. When making international agreements the writing should be as comprehensive and detailed as possible. In agreement making the writing should be precise so that the other party comprehends the agreement in the same way as you do. Other information discussed in the negotiations is also good to have written down on the agreement, if you want them to be part of the agreement so there is little left for misinterpretation. (Melin 2011, 42)

When creating a trade agreement the parties should always agree on which country’s legislation is to be adapted for the agreement. The parties can freely choose which legislation they will be adapting. In international agreements the legislation is mostly determined by the country of the seller. (Melin 2011, 42)

The international trade legislation has been tried to be unified with an international trade law that is based on the so called Vienna Convention. It has been adapted in dozens of countries in Europe and out of Europe. The international trade law is called UNCITRAL (United Nations Commission on International Trade Law). Unofficially it is also called the UN or Vienna agreement. The international trade law plays a significant role in making country-specific legislation differences smaller. It aspires to show the trade agreement to both parties from the same perspective. (Melin 2011, 43,44)

An agreement is originated when the buyer or the seller have made an offer and the counterparty has agreed to the offer thus making an order. In the Finnish law the offer and its acceptance binds the maker of the offer and the answering party from the moment the counterparty has understood the will of the other party. If the offer has been given with modified conditions, this will be seen as a counter offer, which the other party has to agree to that the agreement is formed.
The legislation is essentially the same in Sweden, Norway and Denmark too. In German legislation, the offer binds its maker immediately when it has arrived to its receiver. The law in the USA and in the United Kingdom says that an offer does not bind its maker. The common law says that no one is bound to their promise, if they have not received substitution from the counterpart. The agreement is originated according to the law in the UK and the US when the receiver of the offer gives an approving answer to the counterpart or mails it to them. After that, an offer or an approving answer cannot be canceled anymore and the transaction will happen. (Melin 2011, 46-45)

Both parties of the agreement have an international trade freedom of contract, which means that they can freely agree on the terms of the agreement. The agreement can be made verbally or in writing. In international agreements it is preferable to always make the agreements in writing since the foreign country’s conditions, culture and merchandise can surprise in conflict situations. (Melin 2011, 46-45)

2.1 The content of a trade agreement

1. Background of the parties: Buyers company form, billing address and the buyers’ advocates procuration should be checked. Moreover, it is important to check the buyers value added tax (VAT) number in order to make sure the seller doesn’t become burdened with any extra VAT obligations.

2. Trade individualization: The trade should be defined as detailed as possible. The type of goods, quality, weight, quantity, number of pieces, spare parts and other qualities should be defined as detailed as possible.

3. Purchase price and how it will be executed: The price and how the price is defined and what is includes.
4. Terms of payment and the way of payment: The time of the payment and from where is it counted from (for example delivery day), place of payment and which currency will be used should be determined there. It should also determine who will pay for banking expenses and other possible conditions. Delay of payment and what repercussion will follow it should also be mentioned.

5. Delivery time: Calculating the time of delivery, delay of the delivery and its repercussions, lengthening the delivery time, buyers right to demand compensation from the purchasing price and buyers right to dissolve the contract if the conditions are not met should be included in the contract.

6. Way of delivery and place of delivery: Way of delivery is preferably defined by using international officially confirmed ways of delivery (Incoterms, Combiterms, RAFT or other separately agreed conditions). Defining the delivery address is important when paying the VAT while the invoice can go to a different country than the goods.

7. Basis for discharge: It should be defined in what kind of situations the other party can withdraw from the contract requirements. In these situations, associated compensation for the counterparty should be defined clearly.

8. Checking the product and how it is executed: Possible checkups of the goods during production, checking the product when receiving it and the buyers’ reclamation responsibility should be mentioned in the agreement.

9. Guarantee: This part describes what the guarantee includes, what flaws does the guarantee covers, the guarantee period, the obligations of the parties and what the consequences are if they are not fulfilled.

10. Ownership of the product: How the ownership of the product will transfer and the possible seizure of the ownership. The buyers will to pay can be affected positively by not transferring the ownership to the buyer until the product is completely paid.
11. Specifications about the packaging: It is the vendor's responsibility to pack the goods in an ordinary packaging, but if there is a need for special packaging, it should be agreed separately.

12. When the contract will come into effect: The agreement should mention when the agreement comes into effect and what are procedures of the parties (for example, responsibility to provide designated documents). In exporting, you need to acquire different permits or certificates and acquiring them takes time.

13. How to resolve possible issues: In case of possible issues, it is advisable to agree beforehand in which court of law and with which adaptable law will the possible issue be settled. (Melin 2011, 47-48)

Beside these factors mentioned in the previous, an agreement should also include everything about the product that is being sold, about the target country and any questions about the special conditions. Both parties should investigate how trustworthy the other party is and that they have the means to carry out their agreement obligations. (Melin 2011, 47-48)

A good agreement is originated when both parties prepare it sufficiently and they are familiarized with the other party’s material. The vendor should pay attention to the buyers’ financial reliability. The content also depends on whether the buyer is from the public sector or the private sector, as well as how the trade is financed and terms of payment. From the buyers’ perspective, it is essential to investigate what the actual possibilities are for the vendor to deliver the products as planned. This requires acquiring about the vendors' credit information and evaluating the capability of the delivery and production capacity. The buyer should also verify that his own country’s legislation does not set restrictions for the importation. (Melin 2011, 47-48)
3 WTO

World Trade Organization (WTO) was founded on the first of January in 1995 to follow the general agreement on customs tariffs and trade (GATT) that was created after the Second World War. The WTO currently has 164 member countries of which 20 have an observer status. The WTO operates in Geneva, Switzerland. (Ulkoministeriö 2015)

The mission of the WTO is to reduce factors that restrain international trade such as import duties. Their aim is to help suppliers and service providers to trade and entrance other countries markets. They also make global regulations to guide international trade. The objective of the regulations is to make sure that the global trade organization functions in predicted way following equal norms. Resolving trade agreements between countries is also a part of what the WTO does. The WTO covers approximately 98% of the world’s trade. Above all the WTO operates as a negotiations forum for its members. A negotiating round involving a new trade is started when members of the WTO want to update regulations between members. The latest negotiation round is the Dohan round that was launched in 2001. (Ulkoministeriö 2015)

3.1 Principles of the trading system

One of the WTO’s principles is to trade without discrimination. MFN(Most-favored-nation) principle is included in WTO agreements. It means that countries cannot discriminate other countries when they are choosing their trade partners for an example countries cannot grant special conditions (lower tariff for a product) to one country without granting all WTO member countries these same conditions. An other non-discrimination principle is national treatment and it means countries need to treat import and domestic products equally. (WTO 2015)
3.2 Agreements in the WTO

Agreements that are made by the WTO handle goods, intellectual property and services. They are often seen as rules but they are agreements which their member countries have negotiated on. The three most import agreements are GATT, GATS and TRIPS. GATT (General Agreement on Tariffs and Trade) is an agreement for goods, GATS (General Agreement on Trade in Services) is for issues related to services and TRIPS (Trade-Related Aspects of Intellectual Property Rights) handles issues on intellectual property right. Then there are also extra agreements and annexes that deal with a specific sectors and specific issues. (WTO 2015)

The picture below (Figure 1.) explains how WTO agreements are structured. It shows the six main areas and how they fit together; goods, services, intellectual property, disputes, and trade policy reviews. It presents the umbrella that is all the agreements in the WTO and what they stand for. Under Goods is the GATT agreement, under services in GATS and under intellectual property TRIPS. They all are created for settling disputes and they have different trade policies. (WTO 2015)

![Figure 1. Basic structure of a WTO agreement (WTO 2015)]
3.2.1 General Agreement on Tariffs and Trade (GATT)

GATT (General Agreement on Tariffs and Trade) came into force in 1948. It was created by 23 countries that wanted to establish an international trade organization (ITO). Unfortunately, they did not succeed in this, however they all signed the agreement on tariffs in trade (GATT). They were supposed to later agree on terms to establish the ITO later and did so only 47 years later and that is how the WTO was founded. GATT was created to remove different trade barriers between countries and most of all to ensure equal rivalry. (WTO 2018)

GATT only includes goods and not services. It is the most important and the largest of all the WTO agreements. Under the GATT agreement are the following sectors and issues; rules of origin, investment measures, customs valuation methods, agriculture, health regulations for farm products (SPS), import licensing, anti-dumping measures, textiles and clothing, preshipment inspection, safeguards, product standards (TBT) and subsidies and counter-measures. (WTO 2015)

3.2.2 General Agreement on Trade in Services (GATS)

In 1995 GATS came into force after the Uruguay rounds of negotiations in the WTO. It was the first agreement to regulate the trade on services. It was created after acknowledging that the service industry had grown noticeably in the past 30 years and there was a need for this kind of agreement. The GATS regulates services which are produced for commercial usage and when more than one service provider is competing on producing these services. GATS was established to improve transparency in international services as well as to improve the predictableness of national regulation and freeing the trade of services even more with negotiations. Under GATS are these sectors; air transport, shipping, telecommunications, financial services and movement of natural persons. (WTO 2015)
3.2.3 Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS)

TRIPS (Agreement on Trade-related Aspects of Intellectual Property Rights) came in force in 1995 and is considered as the most comprehensive multilateral agreement on intellectual property. Intellectual property rights are considered the rights that are given to people over the creations of their minds. Trips covers different areas of intellectual property such as trademarks including service marks, copyright and associated rights (for example producer’s right to sound recordings, performers and broadcasting organizations); industrial designs, patents and undisclosed information (including trade secrets) layout-designs of integrated circuits and geographical indications. (WTO 2015)

The agreement consists of five comprehensive arguments; how to protect intellectual property rights adequately, how countries should oversee those rights in an adequate way in their own territories, how the basic principles of the trading system and other international intellectual property agreements should be applied, how members of the WTO should settle disagreements on intellectual property and what special transitional arrangements will take place during the period when the new system is being introduced to the members. (WTO 2015)

3.2.4 Agreement on agriculture

The agreement came into effect on 1st of January in 1995. The long-term aim for this agreement was to create a fair and a market-oriented agricultural trading system. The agreement is set on three pillars; market access, export subsidies and domestic support. Market access is affected by various trade restrictions confronting imports. And there are tariff reductions as well average cut for all agricultural products in a developed country is 36% and in a developing country the percentage is 24%. The agricultural agreement forbids export subsidies unless they are defined in the member’s list of commitments. Domestic support is also one of the factors. In the agreement the amount of the reduction of domestic support is determined by the
type of the support. As shown in Figure 2, the support types are categorized into “boxes” (amber, blue, green) according to how much they might distort the agriculture markets. (WTO 2015; Euroopan parlamentti palveluksessasi 2018)

![Diagram of support types]

**Figure 2.** The types of domestic support (WTO 2018b)

The amber box contains nearly all domestic support procedures which are thought to distort trade and production of agricultural products. These comprehend procedures that support prices or subsidies that are connected to production. The blue box is in a way the amber box with certain conditions. The blue box is created to decrease distortion. It includes all supports that have been released from reduction commitments. (Euroopan parlamentti palveluksessasi 2018; WTO 2018b)

The green box has two support groups. The first includes programs of public services (for example, research, education, infrastructure, domestic food aid). The second concerns producer support, which is completely disconnected with production. They are mainly programs that ensure income level and insurance protection (natural disasters, governments participation to crop insurance programs) or protect the environment. All the supports from the green box which are considered to be in-line with the WTO regulations are released from the reductions. (Euroopan parlamentti palveluksessasi 2018; WTO 2015; WTO 2018b)
The agreement gives governments the possibility to support their agriculture in a way that does not cause that much distortion to trade. There is some flexibility on how the commitments are carried out. Developing countries are not obligated to lower their tariffs or cut their subsidies as much as the developed countries and they have certain advantages such as additional time to manage their commitments. (Euroopan parlamentti palveluksessasi 2018; WTO 2015)

3.2.5 Agreement on the Application of Sanitary and Phytosanitary Measures (SPS)

The agreement on the Application of Sanitary and Phytosanitary Measures (SPS) came into force in 1994. This agreement applies to all sanitary and phytosanitary measures that have an impact on international trade directly or non-directly. The measures are developed and regulated by this agreement. If the member countries decide not to follow the international standards, they must scientifically prove that this kind of conduct is necessary. There are dispute settlement measures in case of the resistance of the application of the standards. (Vieraslajit.fi 2018; WTO 2018c)

The agreement covers measures that are used for protecting people, animals, plants or to prevent other damage that risks such as pests, plants, animals, diseases or pathogens entering the country can cause. The basic idea of the SPS agreement is that with these measures free trade can be restricted as long as 1) the measures are only used in that when it is necessary to protect people, plants, animal’s health, 2) when the measurements are scientifically justified, 3) the measurements do not set similar countries to a different status, 4) the measurements do not restrict the trade more that it is necessary, 5) imported products should not have stricter requirements than domestic products and 6) the risk requirements for import products should be consistent. (Vieraslajit.fi 2018; WTO 2018c)
3.2.6 TRIMS (Agreement on Trade-Related Investment Measures)

The Agreement on Trade-Related Investment Measures (TRIMS) entered into force in 1994. TRIMS’s aim was to remove trade and investment related distortion. Members of the World Trade Organization are committed in not adapting any investments measures that are not compatible with the GATT national treatment principle. The agreement only applies to the trade of goods. (WTO 2015; United Nations 2018)

When the agreement came into force the member countries had a certain period of time to notify all investment actions that did not follow the agreement. These measures had to be executed in the developed countries in two years, in the developing countries in five years and in the least developed countries they had to be done in seven years. The agreement founded a committee to oversee these regulations. (WTO 2015; United Nations 2018)

3.2.7 Agreement on Technical barriers to trade (TBT)

The agreement on Technical Barriers to Trade (TBT) came into force at the beginning of the year 1995. The aim of the agreement is to ensure that testing and certification procedures, regulations and standards do not generate needless barriers for international trade. The agreement confirms that countries can execute necessary measurements for justified reasons for example to protect the health of people or safety and to protect the environment. Technical barriers and standards should not cause different treatment of domestic and similar importer products. (EUR-Lex 2017; WTO 2015)

The agreement encourages to resort in international standards and technical regulations to standardize assessment methods and to make them more unified. For example, it encourages to use the same procedures for testing if a product conforms. This way the product does not have to be tested twice and thus saves the time and resources of both the importing country’s and the exporting country’s. (EUR-Lex 2017; WTO 2015)
4 EU AND TRADE AGREEMENTS

The EU is the world's biggest importer, exporter, investor and the target of the largest investments and the world’s largest aid donor. Its share of the world’s import and export is 16.5 percent. Although only 7% of the people in the world live in the EU, EU’s part of the world’s GDP is over a quarter. Freeing the world trade markets was one of the objectives when founding the EU. Finland as an EU country has trade agreements with approximately 60 non-EU countries. (EU-Julkaisut 2016)

### Figure 3.

The amount of exports and imports in 2016 in the world trade (Eurostat 2018)

The European Union is responsible for trade policies of its member countries’ and the European commission negotiates on the behalf on its member countries in trade negotiations. This means that a single country’s government cannot plan to make a mutual trade agreement with a non-EU partner. EU tends its trade relations with
third countries with trade agreements. They are designed to create better opportunities for trading and to remove trade barriers. EU’s trade policy is also used to further European principles and values from democracy, human rights and environmental issues to social rights. (EU-Julkaisut 2016; European Commission 2018a)

The content of an agreement can vary depending on the negotiation partners country’s targets and what are their agendas. Since many of Eu’s partners have different targets the content is always tailored according to the occasion. Free trade agreements created with developed countries usually have the main focus on the economy and are based on opening mutual markets. Economic partnership agreements made with ACP- countries generally include trade and development targets. (European Commission 2018b; EU-Julkaisut 2016)

EU’s trade policy focuses on its most important partners such as the United States of America, Japan and Canada. The EU is constantly paying attention to BRICS countries (Brazil, Russia, India, China and South-Africa) because they are considered as the world’s economy’s next big thing and it is beneficial to EU’s export companies to make agreements with them. Custom duties that some companies pay when they are exporting their products around the world can still be approximately 5 percent. In some countries custom duties can be even more. (EU-Julkaisut 2016)

Generally, agreements concern several diverse branches and themes and they specify schedules for singular custom duties reductions. In addition of the traditional factors on customs, the modern EU trade agreements have components related to intellectual property rights and public acquisitions. The agreements include the rules of origin and other regulations that can define which products can have reduced tariffs or completely removed tariffs. (EU-Julkaisut 2016)

4.1 Types of different trade agreements

Trade agreements vary from each other based on their content:

1. Customs unions
A customs union is a union between two parties and its mission is to remove custom duties between these two parties and create common customs tariff for foreign importers. For example, the EC has a customs union with Turkey, Andorra and San Marino. (European Commission 2018c)


What all these EU trade agreements have in common is the fact that they either eliminate or reduce the customs tariffs in the trade. An association agreement is an agreement between the EU and a specific country that is not a member of the EU. The agreement strengthens political tides, unifies economical connections and improves the respect for common values. The EU has association agreements for instance with Ukraine, Moldova, and Chile. (European Council 2018b)

Free Trade Agreements (FTAs) are made between two or more countries or unions. They are made to benefit both parties as reduced tariffs, and import quotas. The agreement is made to decrease trade barriers and to increase trade of goods and services between these countries, as well as enabling emerging economies and developing countries by granting them with an advantageous access to markets. Economic Partnership Agreements (EPAs) are trade and development agreements between EU and ACP (African, Caribbean, Pacific) countries. With trade and development aid the EU tries to tackle the ACP countries poverty and to integrate them to the world economy. Each EPA is designed to suit the regional conditions. (European Commission 2018b; European Council 2018a)

3. Partnership and cooperation agreements (PCA)

Partnership and cooperation agreements are made to strengthen the existing relations between EU and an other country. The agreement broadens the cooperation between the parties. Generally, the custom tariffs between the countries are left as they were before. (European Commission 2018b; European Council 2018a)
4.2 The role of the council

The council has a significant role when creating a new trade agreement. First the council authorizes the European Commission to negotiate on behalf of the EU. The European Commission is then given a negotiation mandate. Together with the mandate the council gives the commission negotiation guidelines, that comprehend the objectives of the negotiations, content and possible time restrictions. After these procedures the commission negotiates on the behalf of the EU with the partner country. The council and the European parliament follow the negotiations closely. (European Council 2018a)

When there is a mutual understanding about the agreement between the business partners, the commission provides these official proposals to be approved by the council. After discussing the matter, the council approves the decision to sign the contract on the behalf on the EU. The council then submits the signed agreement to be approved by the European Parliament. After the European Parliament has given their approval, the council can accept the decision to make the agreement. If the agreement has issues that are divided into two different jurisdictions, the council cannot accept the agreement until all its member countries have ratified it. (European Council 2018a)

4.3 Trade Policy Committee (TPC)

Issues concerning trade policy in the EU are handled in the Trade Policy Committee (TPC). All EU member countries are presented in the committee and it assembles every week in Brussels. Although the TPC committee is supposed to only advise on questions about trade policy it has a significant role in the decision making. Its duty is to assist and advise the commission in negotiations and when the commission is conducting trade agreements with governments and with international organizations. The committee primarily covers issues that are affiliated with the WTO, bilateral trade relations and the new EU-legislation on trade policy when it
is under examination in the commission. (European Council 2017; Ulkoministeriö 2017a)

4.4 Comprehensive Economic and Trade Agreement (CETA)

CETA (Comprehensive Economic and Trade Agreement) is a free trade agreement between the EU and Canada. The agreement will remove all tariffs from industrial products which are originally from Canada or an EU country. The tariffs will be removed either right away, or alternatively in three, five or seven years’ time from when the agreement has come to effect. From the EU it is possible to export almost all industrial products tariff free to Canada from the moment the agreement has come to effect. (European Commission 2018d; Ulkoministeriö 2017b)

With this agreement Canada removes almost 92 percent of its agriculture and food related tariffs. EU’s export to Canada has traditionally been emphasized on refined food products hence this contract will bring significant savings for the European exporters. CETA is also committed in environmental issues. Sustainable usage of natural resources in emphasized as is reducing illegal logging and fishing. As so CETA enhances the trade of sustainable forest and fish products. (European Commission 2018d; Ulkoministeriö 2017b)

4.5 EU-Japan Economic Partnership agreement (EPA)

On the 8th of December in 2017 Japan and the European Commission finished negotiations of the EPA. The economic partnership agreement removes almost all the tariffs paid by EU companies, which sums up to approximately 1 billion euros per year. The agreement between Japan and the EU sets high standards for safety, labor, consumer and data protection. Sustainable development has a significant role in the agreement and even includes a commitment to the Paris climate change agreement. (European Commission 2017; European Commission 2018e; Ulkoministeriö 2018)

In Asia, Japan is the EU’s second-biggest trading partner after China. Together they account for approximately one quarter of the world’s GDP. From Japan the
EU imports advanced machinery in different branches, motor vehicles, chemicals, and medical and optical instruments. Japan imports similar products. The EU’s target is to get the agreement come to force by the summer of 2019 while the current commission is still in power. This agreement will potentially increase the EU’s import to Japan with 30% and EU’s GDP with 0,8 %. (Ulkoministeriö 2018; European Commission 2017; European Commission 2018e)

4.6 EU-Mercosur

The EU is negotiating with the four founding countries of Mercosur (Brazil, Paraguay, Uruguay and Argentina) about a trade agreement that will be part of a bi-regional Association Agreement. Venezuela is also a member in Mercosur but will act as an observer in these negotiations. At the moment Mercosur has a trade agreement with the EU. Which is an inter-regional Framework Cooperation Agreement that came into effect in 1999. (Ulkoministeriö 2018; European Commission 2018f)

In 2016 EU firms exported a lot to Mercosur, in goods 42 billion euros and in 2015 22 billion euros in services. The new EU-Mercosur trade agreements aim is to help smaller EU firms by removing barriers, so it will be easier for them to export more, reinforce people’s right at the workplace and protection of the environment, urge businesses to act responsibly, maintain high safety standards for food and to preserve quality of EU drink and food produce from plagiarism. The agreement will be beneficial for both parties, creating equal possibilities of growth and opportunities of employment. (Ulkoministeriö 2018; European Commission 2018f)

4.7 Trade agreement between the USA and the EU (TTIP)

Negotiations between the USA and the EU about the Transatlantic Trade Investment partnership were started in 2013. They were paused during the Trump administration. These negotiations were the most ambitious and strategic trade negotiations EU has ever been a part of. The current tariffs are on average 4 percent so it is crucial to intervene with the external barriers of the customs. According to an
independent study the EU could benefit 119 billion euros from the agreement annually. (Ulkoministeriö 2017c; EU-Julkaisut 2016)

The agreement is supposed to strengthen the EU’s relationship with the USA, as it is the EU’s most important political ally and they form the world’s largest export markets. The aim for this agreement is to open USA’s markets to EU’s companies also for service markets, to help reduce the paperwork for export companies, and to set new rules that make exporting, importing, and investing in the US easier and more equal. The rules are supposed to include for instance standards about social security, health care, information security and quality of food. (Ulkoministeriö 2017c; EU-Julkaisut 2016)

4.8 Trade agreement between Singapore and the EU

Singapore and the EU are negotiating a free trade and an investment protection agreement. The agreements are currently in a stage where the Commission has introduced them to the council. The agreement is supposed to come into force by the summer of 2019 when the current commission is still in power. The EU’s and Singapore’s trade and investment agreements will raise their relations on a new level and create growing opportunities for EU’s and Singapore’s companies as well as generate new jobs for people. (European commission 2018g; European commission 2018h)

These agreements will be the EU’s first bilateral trade and investment agreement with a Southeast Asian country that belongs into ASEAN. It is a huge step towards the EU’s final target to have a trade and investment agreement with ASEAN. The negotiations concerning these agreements were started in 2007 but they were suspended after they came to a dead end. However, both parties are preparing for a possible reboot of the negotiations. (European commission 2018g; European commission 2018h)
The agreements made with Singapore are a good foundation for other agreements EU is negotiating with the ASEAN member countries. After the EU started negotiations with Singapore in 2010 it has also started bilateral negotiations with Malaysia in 2010, Vietnam in 2012, Thailand in 2013, Philippines 2015 and with Indonesia in 2016. For the EU Singapore is by far the biggest trade partner from ASEAN countries. The worth of their bilateral trade of goods was 53,3 billion euros in 2017 and the worth of trade of the services in 2016 was 44,4 billion euros. Over 10 000 European companies are located in Singapore and use it as their company’s Pacific operation center. (European commission 2018g; European commission 2018h)

The agreement creates preconditions so that EU’s companies can utilize all the possibilities that Singapore offers as the center of business in Southeast Asia. The Eu’s and Singapore’s bilateral agreement is one of the ‘‘New generations’’ bilateral agreements. In addition of having the traditional removal of trade and service trade tariffs and removal of other trade barriers, the agreement includes regulations concerning intellectual property rights, investing, public acquisition, competition and sustainable development. The target of this agreement is to also urge EU companies invest more in Singapore and vice versa. (European commission 2018g; European commission 2018h)
5 EMPIRICAL STUDY

The aim for this thesis is to create a functioning SLA template for Arla Oy. Arla Foods has several dairies around Europe from where they distribute their products to the dairy in Finland. The template is made for both parties when they transfer items from the other dairy to the other one. The template is created in order to ensure both parties have the important details about the transaction in a written agreement. This empirical study will include the structure of the template and what it comprehends. These dairies are all part of the same company so the agreement will not include invoicing or pricing.

5.1 Research methods

The quantitative research method was chosen for this thesis. It is a research method that aims to understand the quality, features and meanings of the target.

Figure 4. Research methods (Koppa 2015)

Figure 4. shows different research strategies structures. For instance, strategies are divided into theoretical and empirical research that again are divided as quantitative
and qualitative methods and then there is the multi-method research method that is the both two combined as one research method. (Koppa 2015; Hamk 2018;)

Qualitative research methods can be implemented in many different ways. All that these methods have in common are the angles related to the meaning, function and background of the subject. For qualitative research it is typical to examine only one or a few cases chosen for the research. This research method is evaluative, descriptive and creative. The research material is chosen intentionally and after considerable consideration. The researchers count on their own intuition, observations and discussions more than knowledge that can be acquired with different measurement methods. For assistance the researcher can use a recorder, tests or forms. (Koppa 2015; Hamk 2018;)

The qualitative research method favors methods with the point of view of the subject and their “voice” come out. These methods are such as theme interviews, group interviews or analyses of discursive documents and texts. The aim is not to find generalization that applies to everything but to understand the phenomenon and get theoretical proof. Quantitative research method is considered the opposite of qualitative research method. It uses numbers and statistics to portray the result of the study. They can also be used together for an even better end result. They can explain the same thing but in a different way. (Koppa 2015; Hamk 2018;)

5.2 The beginning

This whole process started when I contacted the target company Arla Oy. I had worked there before and I knew some of the staff members. I asked around if they would have a project for me to write my thesis about. They told me about the structure of the organization and how the transaction between dairies in Europe occurred. The task was to create an internal agreement between the dairies.

The process was started by looking over all the material that they had been using before and examining what could be used in the new template and what should be removed. These service level agreements would consist of the basic characters
which any normal agreement consist of. The template was created on the basis of an old SLA agreement which Arla Oy had used before with a dairy in the UK. It was seen as too long and it had unnecessary information in it.

By modifying this template, the current SLA template was created. The old version had factors that were outdated and irrelevant such as invoicing and product information. The target company wanted the agreement to look clear and simple with all the relevant information. They wished that the agreement would be in a Word document form and have a table of contents for clarity.

5.3 The SLA template

The SLA template starts with a cover page which has the logo of the company and the names of the dairies in question. It also has a very relevant element of the agreement, the place for signatures. This element will make the contract valid when it is signed by both parties. (Figure 5.)

![Arla](image)

**Service Level Agreement (SLA)**

**Between**

**GERMANY LINDENBERG PLANNING & SITE**

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<th>XXX</th>
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**Figure 5.** the cover of the agreement
Next in the contract is the table of content which has the content of the agreement. All the contracts have basically the same content only slightly depending on the product in question. The table of content has seven main topics, introduction, planning, maturation, quality, shipments, review meetings and contact persons. (Figure 6.)

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Figure 6. The content of the agreement

The introduction section has been divided into three subchapters, general, assignment and service level. In the first chapter there is an explanation on which areas the agreement affects. It is also mentioned which dairy is in question and what products are being transferred. The second chapter of the assignment describes how the whole process will happen i.e. which dairy produces the products, who is planning the production, who gives the production orders, who provides a demand forecast and submits purchase orders, who arranges the transportation of the goods and finally who monitors the stock of finished goods.

The service level plays a significant role in the agreement. It measures the performance of the system, and provides the expectations of quality of the service and the service type. In this case, because this is an internal document, it does not include
any sanctions that are going to be executed if the service level does not reach the required service level. In all of these agreements the demanded service level is a very high, 99%.

Chapter two concerns the planning. The subchapter part consists of demand planning i.e. who makes the demand planning for the dairy in Finland and why the other dairy need this information. The other dairy needs the information for their production to know how much to produce, for their planning personnel, machines, and for ordering the packaging material.

In the replenishment planning chapter, who is responsible for the coordination of goods flow between the dairies regarding to the forecasts, production profile and transportation time are described. The one who is responsible for the coordination of the goods flow is obligated to monitor the stocks at their distribution center (DC) with the focus on factors such as safety stock, production frequency etc. in order to secure a high delivery percentile to the customer and low wastage of finished goods.

The next section handles order lead time. The material requirement planning (MPR) creates purchase requisitions for the planning horizon and then the planner of the dairy in Finland verifies and converts these into actual stock transfer orders. There is standard regulation that says that the actual orders have to be set in place for at least five weeks in advance in order that the planners in Finland can have a good view of the incoming goods and so that they know about future orders in advance and also that they are able to book the transportations for the goods in time.

Chapter 2.3 discusses volume considerations when making production planning. When the foreign dairy produces the goods, and cannot deliver all of the ordered goods, the order can vary X% depending on the agreement and the product in question. They still need to ship the order and all pallets and cartons that have been produced. The packing rules state that the foreign dairy will not keep a stock of finished goods. This is mainly because this contract concerns perishable products and dairy products that do not have long shelf-life. It means the length of time that the product
can be stored before it becomes worthless and it cannot be sold anymore. It is also said in the packing rules that the product needs to be packed as late as possible to provide the best possible shelf-life.

Maturation is not included in all of the agreements since only some cheeses need a maturation period. The maturation section states that products are not usually shipped when they are still in their maturation period, although they can be if both parties make an agreement on the subject. The length of the maturation depends on the product.

Chapter 4.1 states that if there are any performance issues they should be discussed between the dairy in Finland and the other dairy’s replenishment planning. It also states that the foreign dairy’s demand planning should review the forecast and if needed discuss it with the dairy’s replenishments planning team. If there are any adjustments the foreign dairy has to discuss this with the dairy in Finland. Issues that are regarding the forecast accuracy should be discussed internally by the foreign dairy’s replenishment planning and demand planning.

Chapter 4.2 handles complaints regarding operational issues, for example time schedules, palletizing, volume discrepancies etc. When and if they occur, they are discussed with the site personnel and the foreign dairy’s planning team. Logistic complaints regarding the flow between the distribution center and the customer are not included in this agreement since they are not the foreign dairy’s responsibility. Errors that the arriving goods might possess should be documented by the Finnish dairy’s planning (for instance, the product label cannot be scanned, damaged cartons). Repetitive or significant failures/issues should be communicated via the foreign country’s planning to the site contacts.

Chapter 4.3 covers what should be done in case of any product quality issues and what should be done regarding to the return process. The dairy that is sending the product discusses this with the logistics department of the site and they discuss the matter whether the products should be returned to the sender dairy or be disposed
at site. Chapter 4.4. covers the recall procedure and defines to which standard operating procedure (SOP) they are to be handled with. It is also stated that in case of any recalls, the warehouse is obligated to identify and block the affected material.

The next chapter 5 covers issues concerning the shipping of the products from dairy A to dairy B. The first section covers the transport booking i.e who is responsible for managing finished goods transportation to Finland. In these agreements it is decided that the dairy in Finland is responsible for this. That includes ordering and coordinating transport (number of pallets, pick-up times etc.). In case of the loading times changing the site is responsible for communicating these changes to the forwarder and vice versa the forwarder is responsible for communicating about any deviations or similar. The forwarder is responsible for booking unloading slots with the distribution center in Finland and as well for including later changes to timings of the shipment.

Chapter 5.1.2 Documents and Requirements, states all the necessary paperwork for the shipment. As a rule the dairy in Finland always has to provide the foreign dairy a correct and detailed dispatch plan to the replenishment team as a way of pre-advise. These following documents are the minimum requirements for each shipment from the foreign dairy to the dairy in Finland. The documents always need to be filled out in the right way, accurately and intended for the shipment in question. Failure to do so may result in rejection at the depot and may cause additional costs when being returned to the original dairy. The required documents and information are a packing list/delivery notes, article no., product description, total weight of a pallet in kg, number of cartons, total number of pallets and a bill of lading (CMR).

Since these products are perishable they also have requirements about the temperature as they cannot be delivered in a normal truck. The temperature for these at the sending dairy should be max 5°C and during the transportation the temperature should be approximately 2°C - 4°C. Utilization of the transport is also regulated. The objective for all parties is to maximize the transport utilization and to minimize costs as much as possible by shipping full truck loads (FTL).
The second last chapter discusses review meetings. They are relevant to the maintenance of the relationship between the agreement parties. This is how the parties keep in touch and update the content on these agreements. In this section the parties agree on how often these meetings should take place and where. In an international large organization these meetings usually take place via Skype. It is more cost efficient to have these meetings via Skype than to send some members to another country. In the review meeting the parties also evaluate the previous performances, what has succeeded and what should be done in a different way. Also, future forecast on capacities are being discussed such as shutdowns and promotions.

The last chapter has the contact information for both parties so that they can keep in touch about shipments and other information in case something should happen during the shipment. The contact people are mainly the planning staff and their supervisors in both dairies.

5.4 How the international agreements affect the SLA template

The SLA template is not affected by any of the international agreements. It does not change the content of the agreement although when importing these products from Germany, Denmark and Sweden, the company has to follow the international regulations on trade both the EUs and the WTOs. All these countries are members of the EU so there are no tariffs or regulations for the origin of the product.

If the SLA agreement would be carried out between countries that are not in the EU, the list for required documents would be different. Overall international trade legislation does not change the SLA template. Service level agreements are different agreements compared with other trade agreements. They are very specific about the service in question and how the whole process is going to take place.

5.5 Suggestions for future research

This research included information about international trade agreements (WTO, EU) and SLA agreements. The theory section does not include any information on
SLA agreements as it was so difficult to find reliable information. The only information I could find was available was on different web sites that had little information on the topic and they dealt with IT companies and other branches. Service level agreements are very general in IT companies and I believe that the branch has been studied much. However, using service level agreements in larger international corporation as an internal document has not been studied broadly.

I consider that the Service Level Agreement would be a good topic for a larger study. A study could examine in detail what an SLA should contain and what is its significance to a company as an agreement. Another research questions could be, what is the whole idea behind the agreement is and why are they needed in business life as well as what makes the agreement legal.

5.6 Conclusion of the empirical study

This study concerned finding out how a service level agreement is created and what should be included in it. I started by examining the already existing material that the company had on the topic. They did not have much material, which lead to me start with creating a simple Word document with a table of contents. The process continued with discussions on the agreements with the members of the company. They explained how the process of importing the goods occurs and what things they would like to include in the agreement.

I had been a given an earlier model of a service level agreement that had been previously used. However, this model had been perceived as too detailed and outdated. I consulted the planning personnel on what they would like to have removed from the agreement and what sections would be relevant to keep in the template. This resulted in the current template, which is used with the dairies in Germany, Sweden and Denmark.

The process continued by the planning department’s personnel sending the completed template to the dairies in question. The next step was to wait for the answers of the dairies to learn if they were content with the end result or whether they had
anything to correct or modify on the agreement. In the end the other dairies did not have any comments on the agreements meaning that both parties were satisfied with the agreement.
6 FINAL WORDS

The aim of this thesis was to create a service level agreement template for Arla Oy. Arla Oy is part of the international corporation Arla Foods. They comprehend several dairies around the world. The SLA template was created to be used as an internal agreement between a few of these dairies. The research questions aimed to find out what in general an SLA is, what an SLA consists and what international agreements should be taken into consideration when creating an SLA.

The theoretical study examined international trade agreements. I started with explaining the basic structure of an international trade agreement by stating the different aspects it should contain. The next chapter I explained about the WTO and its trade agreements. Firstly, it was demonstrated what the WTO is and then the most common and important agreements that the WTO has were analyzed. In the last chapter I explained what is the process how the EU creates international trade agreements and then shortly described the most current trade agreements that the EU has with other parties. The empirical study was started by examining the SLA template created for Arla Oy. I described the structure of the agreement and the whole process of how the SLA was created.

In the research process I found it slightly difficult that there was not much theoretical information on service level agreements that I could find. I had to rely on the internet sites I could find on the topic and if I could find information there was not much of it. They mainly described service level agreements for IT companies. The fact that service level agreements are like all typical agreements helped as I could copy sections from a normal international trade agreement. The structure is basically the same in an SLA as in a typical international trade agreement. Nevertheless, internal agreements are more unrestricted since they do not benefit from punishing the other party with fines or strict regulations.

This thesis taught me a great deal about contracts, research and most of all the working culture and time management in international corporations. When starting
a project this large, concerning several different parties in different countries, planning the schedule ahead is crucial. This helps to avoid long waiting times and to insure everyone involved has an understanding of the amount of time they will be investing. All in all it has been a very educating experience.
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