Bingxi Yan
EU TRADE POLICY STUDY AND EXPORT PLAN FOR AN ALUMINUM COMPANY
Bachelor’s Thesis 2012
As the world is more integrated, lots of companies are seeking oversea market to get more profitability. From a trade perspective, the trade related policy of the target market and how export is conducted are essential issues for company to consider in the first place.

The objective of this thesis was to figure out the trade policy and the business environment of the European Union. It gave the case company a clear view of the investment environment. In order to put the theory into practice, an export plan was made at the end of the thesis.

As the research question mainly focused on trade issue other than marketing issue, so qualitative research was used during the study. The interview of the vice manager of the sales department of the case company is included in the thesis. The trade trend statistics between EU and China were presented in the thesis as well.

The EU sets openness trade policy to the world especially to the developing countries. Bilateral trade agreements signed between the EU and China, meanwhile, with positive trade trends between EU and China, the case company will get quite a lot of benefit.
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1. INTRODUCTION

1.1 Why this topic was chosen

There was a significant decrease in global economy since 2007 and it has dramatically affected world trade. The crisis started in the US because of the credit crisis, with the uncontrollable credit crisis it soon spread all over the world. Since China is a country relying on its export business a lot, usually the contribution margin from export to GDP is about 15%. However, because of the economic crisis, in the year of 2009 the contribution margin from export to GDP is almost 0%. Lots of companies/factories who do export business became bankrupt since 2008 and the unemployment rate is increasing. Besides China, the EU is also experiencing a hard time. As the Economist (November 26th, 2011) described, Greece, Spain and Portugal are facing the sovereign default; Euro the common currency of EU is depreciating, unless Germany and the ECB move quickly, the single currency’s collapse is looming.

China as a developing country and the world’s biggest export country is always finding the oversea markets. Figure 1 shows the export statistics from January 2008 to June 2011.
The trend of export figure keeps increasing, even though there was a bit decrease between the 3rd quarter of 2008 and the 1st quarter of 2009 and reached the lowest point which the export value was about 250,000 million USD.

Generally speaking, China exports light industry products, such as toys, shoes, clothes and etc; however, it is always OEM (original equipment manufacturer), the own brands are barely exported. Nowadays, more and more own brand products export to the international market, such as metal products. At the same time, with the relatively low price, products from China has very good market quota. The aluminum industry is a newly industry in China which exists only 30 years. Exporting the aluminum products to foreign markets will be a big challenge as the quality of the products is not a competitive advantage. Firstly, since the case company has explored the US market and gets good feedback from there, the case company would like to explore a new market to increase the profit. EU as a union has developed economy and integrated trade policy, as well as China’s biggest export partner (Figure 2), presents the market potential.
Secondly, the product from case company has once exported to Greece, with the experience of exporting to one of the EU member states; the case company wants to obtain more market in EU. Figure 3 shows the export volume of metal from 2005-2010.
The case company has a history to export its products to Asia, South America, Mid-east and Greece. The export business with Greece is the only one which only succeeds once. Even though the exporting experience to Greece is not good at all, in order to get more profit the case company would like to try again. When having the interview with Yang (2011), who is the vice manager of sales department of case company, she said: “Since EU is a quite new market for us, from the current view, we are more likely to know the information of European market such as what policy they launches for export countries in tariff, customs and so on; and also the business environment of EU.” From my point of view, when exporting to a new marketing, the policy and legislation issues are important as well as the review of business environment. This is also the reason that this thesis mainly concerns the trade policy and the business environment of EU in theoretical part.

1.2 The objective of the thesis

Because of the sinking economy, it is a good time for the company to think about new business strategy so that as soon as the market recovers, company can conduct its newly business plan in time.
The objective of the study is to give the company who wants to do export business guidance that what kind of issues may influence the company’s decision making. Besides, according to the study, especially the study of trade policy will make it clear that in economic worlds, each country or economic union needs and supports each other.

The trade policy of each country or union is distinct from each other. Before entering a new market the essential understanding of trade policy of target market is necessary. Meanwhile, due to economical and political reasons there is always bilateral trade agreement between countries and the bilateral trade agreements always make the trade process easier. The thesis attempts to find out the trade policy of EU towards the world, especially towards developing countries as China, meanwhile the characteristics of the EU business environment will identified. From the research the case company will have a brief view of EU as a trade partner. Moreover, in order to give the case company a better guidance of export activity an export plan is made as well.

Figure 4: Research questions
Besides the definition of EU trade policy, how the policy impacts on the export behavior of the case company will be discussed as well. After the theoretical part, an export plan will be made for the case company. The export plan explains the export process step by step, which includes description of the case company, terms of sale, contact and choose of freight forwarder, packing and labeling the product, export documentation.

1.3 Methodological approach

Davies (2007) states there are several things which should be noted in methodology issues when conducting a research: defining a research problem, choosing a research site, gaining access, finding an identity, looking as well as listening, recording observations, developing analysis of field data and using grounded theory. The decisions of methodology are always theoretically loaded; methodology is defined as a general approach to studying research topics. Table 1 shows most research methods can be used in research based on either qualitative or quantitative methodologies (Silverman 2005, 109-110).

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Quantitative research</th>
<th>Qualitative Research</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Observation</strong></td>
<td>Preliminary work e.g. prior to framing questionnaire</td>
<td>Fundamental to understanding another culture</td>
</tr>
<tr>
<td><strong>Textual analysis</strong></td>
<td>Content analysis</td>
<td>Understanding participants’ categories</td>
</tr>
<tr>
<td><strong>Interviews</strong></td>
<td>Survey research</td>
<td>Open ended question to small samples</td>
</tr>
<tr>
<td><strong>Transcripts</strong></td>
<td>Used infrequently to check the accuracy of interview records</td>
<td>Used to understand how participants organize their talk and body movements</td>
</tr>
</tbody>
</table>

There are two methodological approaches in quantitative research: survey research and experimental research; both researches depend on careful planning, an understanding of sampling techniques, disciplined data-gathering and skilled data interpretation. When analyzing the data which collected from
quantitative research, the key variables may include: gender, age, social class, ethnic identities, religion and variables which specific to the project. SPSS can be excellent software to analysis the research data (Davies 2007, 51 & 113-115).

1.3.1 Qualitative research and quantitative research

Both qualitative and quantitative methods are frequently applied to the business researches. Quantitative research owes its identity to the scientific tradition while qualitative research is reflective or experiential in nature. The purpose of quantitative research is to discover answers to questions through the application of scientific procedures. Qualitative research consists of interpretive and material practices and it studies things in natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings people (Davies 2007, 9-10).

There are differences between qualitative research and quantitative research, both in the objectives, the sequential pattern of research activity and the time-scale relative to the different elements. Qualitative research requires flexibility and alertness during data collection, and advanced skills in data management and text-driven creativity during the data analysis. Compared with qualitative research, quantitative research requires imagination and discipline at the planning and design stages, technical problems may present during data collection, and the data analysis is largely determined by the way the project was set up (Davies 2007, 26).

This thesis is written to give the case company a general overview of EU trade market. By interviewing the vice sales manager of the case company, the needs of the case company are known. The emphasis of research questions is to study the EU trade policy, to analysis the business environment of EU as well as to understand how the export procedure is conducted. The answers of the research questions, such as the trade trend between EU and China, the general EU trade policy as well as the trade policy set to developing countries, and the Macro business environment of EU, are found from literature and internet. So
qualitative research becomes the research method applied in this thesis.

1.3.2 Case study selection

The theory of this thesis is divided into three parts, first is general EU trade policy and policy towards developing countries, second is the PEST analysis of EU market and last is export procedure which includes contract of sales, payment terms, mode of transport and etc. In the empirical part, in order to put theory into practice an export plan is made for the case company. Whoever would like to sell something, especially aluminum products into EU market, they could look over this case study and get to know trade policy, business environment as well as the export procedure of EU market. Even though the market entry strategy and product launching strategy are not mentioned, companies should still use the results of the study from the trade point of view.

1.3.3 Data collection

In qualitative research, the range of data collection methods is from interviewing and observation to the use of artefacts, documents and records from the past; from visual and sensory data analysis to ethnographic methods. Although interviewing is the most common means of qualitative research, there are two more ways of accumulating qualitative data which are ethnographic approach and anthropologic approach. The information collection from internet, books, and journals can be also seen as qualitative research method (Davies 2007, 151-168).

This thesis mainly consists of the qualitative research data which are collected from literatures, internets, publications and an interview to the vice sales manager of the case company. The data collected from literatures, internets and publications is illustrated for the theoretical part and the empirical part of the study.
The face to face interview to the vice sales manager of the case company was taken place on 15 August, 2011, Chengdu, China. The interview shows the case company's willingness to export to EU and problems as well as puzzles the case company meets during this process.

1.3.4 Data analysis

Powell and Renner (2003) defines, the quality of data analysis depends on the understanding of data. When analyzing the data, research question should always be kept in mind, meanwhile all the data need to be categorized. In this study, the data are categorized into different parts which focus on different research questions.

In this study, the research starts from to figure out what is the trade policy of EU and what is business environment of EU. In order to get the answers, document studies were conducted by referring to the theory books, internet information and other kinds of publications about EU trade policy and the business environment.

Before the document studies, an interview to the vice sales manager of the case company is made, so that study direction is clearly pointed out.
2. EU OVERVIEW AND TRADE BETWEEN CHINA

This chapter introduces the background of EU and EU-China relations. The first section covers the introduction of European Union. The diplomatic as well as the trade relation between EU and China is introduced in section two and section three respectively. In order to support the business idea of the case company, the impaction of EU-China relation will be discussed in the end of section two and section three.

2.1 EU in general

The European Union (EU) is a union contains 27 countries in a unique economic and political partnership. The EU was built up after the Second World War; its purpose was to foster economic cooperation- countries that trade with one another are economically independent so that conflicts will be avoided.

The EU has developed into a huge single market thus the movement of people, goods, service and capital among member states are freely as within one country; and the euro acts as its common currency. EU is the world biggest exporter and the second biggest importer. The EU’s trade with the rest of the world accounts for about 20% of global import and export. The United States and China are EU’s biggest trade partners.

Globalization is an important trend in world changes in decades. The establishment and development of EU is definitely one of the most success cases. Even though there are many conflicts, EU managed to reduce even remove barriers between countries, invented common currency and common economical policy such as Common Agriculture Policy (CAP). At the mean time, “the diversity of markets and culture, the diversity within companies as well as in the scope of their operations” still exist. (Suder 2008, 7-8).
The integrated union provides stable market environment. Since EU is devoting itself to build a standardized legislation framework, it makes the case company easier to expand its business in EU as soon as there comes one successful export case in any of the EU member states.

2.2 The EU and China

The European Union and China has maturing partnership. China has undergone dramatic changes since its open door policy in 1978. China is growing rapidly and becoming one of major trading countries all over the world. China’s accession to the WTO (World Trade Organization) has accelerated this process.

Now, China is a power increasingly engaged in the world affairs and seeking an even political status compared with its economic weight. EU itself is also changing that China will adjust its policy of the European continent. The introduction of Euro has deep impact on the Chinese leadership, business community and public opinion.

Delegation of European Union to China (2010) says the EU’s main objective to China is to help China occupy the position in the international community both politically and economically, according to its size and geo-strategic importance in the international community. The EU’s China policy is:

“1) To engage China, both bilaterally and on the world stage, through an upgraded political dialogue. 2) To support China’s transition to an open society based upon the rule of law and respect of human rights. 3) To encourage the integration of China in the world economy through bringing it fully into the world trading system, and supporting the process of economic and social reform that is continuing in China. 4) To raise the EU’s profile in China.”

Under the EU policy towards China, China will be involved more into international affairs, both economical and political. By bringing China into the
world trading system, the trade standard of China will meet international level, so that trade barriers between EU and China will be reduced. The trade affair is going to be more frequently than before, which makes a win-win situation. When this EU’s China policy applied on the case company, it makes the exporting operation smooth and the market entry will be easier. Besides, the beneficial trade agreements signed between EU and China may provide more opportunities for companies who would like to sell its products to EU.

2.3 EU-China trade relations

EU and China both see each other as important trade partner. EU is China’s largest export market; China is EU’s largest source of import. In 2006, China has replace the US, became the main source of EU; and EU exports to China have also shown substantial growth since then, stated by Xenellis and Pongas (2008).

EU trade with China increased dramatically rapidly between 1999 and 2006 (Table 5). Xenellis and Pongas (2008) also mentions imports from China grew at an annual average of 20.5% over the period and even faster in 2005 and 2006. Export growth averaged 18.3% over the same period and stood at 22.8% in 2006. In 2008 the bilateral trade between the EU and China increased substantially. In 2008, EU’s import rate from China increased by 6.5% and the export rate to China increased by 9%. 
Stated by delegation of European Union to China (2010), in 2008, export goods from EU to China are €78.4 billion and imported goods from China to EU is €247.6 billion. EU’s imports from China are mainly industrial goods, the top 5 goods are: machinery, textiles, miscellaneous manufactured articles, base metals and medical instruments. EU’s exports to China are concentrated on industrial products as well. The foreign direct investment for EU and China in 2008 is €4.5 billion and €0.1 billion respectively.

European Commission (2010), due to the openness of EU market, it contributed to China’s export-led growth. While the EU also benefit from the growth of the Chinese market. Competitively priced Chinese products have helped to keep lower inflation and interest rates in EU. EU will continue to offer open and fair access for China’s exports.

It can be seen that EU market welcomes the entry of Chinese product. The market preference of Chinese products may encourage EU apply more beneficial trade policies for China. The case company may also benefit from it. Even though the economic crisis impacts on the aluminum foils business between EU and China, the aluminum foils statistics (Table 2) still shows positive
numbers.

Table 2: Aluminum foils Statistics of EU and China (EU Commission 2011)

<table>
<thead>
<tr>
<th></th>
<th>Year 2007</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import Value</td>
<td>167,949</td>
<td>151,908</td>
<td>77,820</td>
<td>116,382</td>
</tr>
<tr>
<td>Import Quantity</td>
<td>58,914</td>
<td>56,353</td>
<td>31,243</td>
<td>42,078</td>
</tr>
<tr>
<td>Export Value</td>
<td>9,293</td>
<td>10,743</td>
<td>11,280</td>
<td>16,930</td>
</tr>
<tr>
<td>Export Quantity</td>
<td>1,540</td>
<td>1,965</td>
<td>1,879</td>
<td>2,672</td>
</tr>
</tbody>
</table>

Value: 10000 Euro; Quantity: 10000kg

The import quantity keep increasing from 2007 to 2010, but the import value decreased, because the price of raw materials fluctuated during the crisis. Hopefully, this crisis will pass by as soon as possible, so that the case company will entry this profitable market.
3. EU TRADE POLICIES

In this chapter EU’s trade policies towards other countries will be discussed. Customs valuation, rules of origin, tariff and international customs co-operation agreements with China are mainly concerned in the EU’s trade policies towards other countries. By knowing these policies in beforehand, the case company will get a more detailed export budget and the export cost will be controlled; meanwhile, the trade barriers between EU and China will be seen and minimized by the case company before the export operation begins.

3.1 Customs Union of European Union and custom valuation

The EU Commission (2010) states the Customs Union of EU is a foundation of European Union and an essential element in the functioning of the single market. Customs are in a unique position to be able to facilitate trade as well as to protect the interests of European Union and its citizens. Customs authorities implement EU policies in nearly every field which connected with international trade. In order to create a fair and open trade market, customs authorities should be responsible for supervising the international trade of EU.

EU notified its customs valuation legislation and replied to the checklist of issue on customs valuation to General Agreement on Tariff and Trade (GATT), prior to the establishment of World Trade Organization (WTO). To determine the customs value, the transaction value is primary basement. It includes international freight, insurance and other Cost Insurance and Freight (CIF) charges. Around 95% of all import declarations are accepted in accordance with the transaction value method (EU trade policy 2011, 31).

3.2 Rules of origin

According to European Commissions (2011), in EU both non-preferential and preferential rules of origin are applied. Non-preferential rules of origin are
applied for several purposes, which include the tariff quotas, contingency measures and government procurement. Non-preferential rules of origin provide an “economic “nationality on goods and preferential rules of origin provide several benefits on goods traded between particular countries (EU trade policy 2011, 5).

It has been clarified by European Commissions (2011) under non-preferential rules of origin; there are two concepts to determine the origin of goods, “wholly obtained” and “last substantial transformation”. The goods is produced in more than one country should use “last substantial transformation” to determine the origin of goods; while the goods is produced in only one country should use “wholly obtained” to determine the origin of goods.

When exporting aluminum foil to EU market, tariff quota needs to be obtained, so that the case company is under the regulation of non-preferential rules of origin. At the same time, the product which the case company willing to export is produced only in China, that “wholly obtained” should be used when determine the origin of goods.

EU Commissions (2007) states preferential rules of origin are maintained under preferential agreement. Preferential rules of origin give certain tariff benefits on goods between countries which have agreement. Each country has different agreement between EU; the Generalized System of Preferences (GSP) is an agreement applies to developing countries, but China is not included in this system.

Stated by European Commissions (2011) the principle of GSP was agreed at the United Nations Conference on Trade and Development (UNCTAD), and it relaxes and simplifies rules and procedures for developing countries wishing to access EU’s preferential trade agreement, while ensuring the necessary controls are in place to prevent fraud. The GSP was not negotiated with those developing
countries and this is a non-reciprocal agreement. The GSP raised the limit on the use of non-originating materials from 10% to 15%. GSP beneficiary countries may cumulate origin with goods from Norway, Switzerland, Liechtenstein and Turkey (EU Trade Policy 2011, 33).

3.3 Tariff

It has been clarified by European Commissions (2011) that tariff which applies to the import of goods from external borders of EU is called Common Customs Tariff (CCT). Common Customs Tariff duties are set by the European Parliament and the Council. The tariff is common within EU member states; however, the rates of duty differ from the economic sensitivity of products. The tariff nomenclature used by EU is based on the Harmonized Commodity Description and Coding System (HS). Clarified by Shanghai Customs, China (2007), HS is an international multipurpose nomenclature which was elaborated under the auspices of the World Customs Organization (WCO). HS is important not only for determining tariff rates but also used to determine export VAT refund rates and other non-tariff requirements such as Import Licensing. Customs are also enforcing HS compliance for statistical purposes as these are used in trade negotiations and policy development. As yet there are 141 contracting parties to this convention. EU and China are both included in it.

Rates of duty differ depending on the product. The case company is going to export aluminum foil into EU market. According to the rates of duty set by European Union (2011), the conventional rate of duty the case company should pay is 7.5%.

3.4 International customs co-operation agreements with China

In order to provide a balance between trade liberalization and increasing international trade with the world’s largest trading partners, cooperation at international level between customs authorities becomes an important tool.
Trade flows; fight against fraud and illegal activities will be better controlled by customs authorities due to this cooperation.

Stated by European Commissions (2010) from 1997, the Government of the People’s Republic of China and European Community began to negotiate the customs cooperation agreement. In February 2004, European Community and China concluded this agreement, which undertakes to fight against trade fraud and counterfeiting, a major problem in China and increasing threat to the EU economy. The agreement was initialed on 6th of May, 2004, Brussels. It is said from the EU Commissions (2010)

“The agreement will provide a framework for increased cooperation between the parties with a view to simplifying customs procedures and facilitating trade in accordance with international customs standards. It will also set up a mechanism for mutual administrative assistance for exchanging information and carrying out inquiries, with a view to combating fraud against the two sides’ respective customs legislation. It will therefore improve the effectiveness of the fight against fraud and counterfeiting while guaranteeing protection and confidentiality of information and respecting the purpose for which the data concerned has been collected.”

As the customs cooperation agreement states, European Community and China is going to fight against trade fraud and counterfeiting. The trading environment will be improved and illicit completion is going to reduce. For the case company, the resistance during the export will be less, more opportunities appears as well. Under the framework of the agreements, customs procedure is simplified. Due to this fact, the export time is shorted the products could be delivered to the buyer in a shorter time. The case company works more effective, meanwhile, the storage costs during export is diminished; as the result the export business operates by the case company will be more profitable.
4. EU TRADE POLICIES FOR DEVELOPING COUNTRIES

EU is the world’s biggest single market and the most important trading partner for developing countries. EU is offering partner wide range of preferential trade agreements, these preferential trade agreements allow developing countries to benefit from as open access as possible to EU market.

In the actual exporting process, what is the VAT of destination market? Does the excise apply on your product? What are the compulsory document must be accompanied the product? All these questions will be explained in this chapter.

4.1 VAT

Value Add Tax (VAT) is a modern tax, the essence of VAT is that it is charged at all stages of production. Most countries exclude exports from the VAT, in the sense that tax is not charged on sales for export but tax paid on inputs is recoverable, although some have systematically levied VAT on some exports. Some countries extend the VAT only to the manufacturing state’ others do not levy it on services. To sum up the statement above, VAT is defined as “A broad-based tax levied on commodity sales up to and including, at least, the manufacturing stage, with systematic offsetting of tax charged on commodities purchased as inputs-expect perhaps on capital goods-against that due on outputs.” (Bodin & Ebrill 2001, 1-4).

The potential effects of domestic taxes on international trade have become more apparent and controversial, since explicit taxes on international trade have diminished. The first two things to consider the impact of VAT are: the home country taxes consumption on a destination-basis at the ad valorem rate and on an origin basis at the ad valorem rate. Several assumptions can be deduced from both destination-based and origin-based consumption taxed to export behavior. Firstly, an anticipated increases in the rate of VAT. In this circumstance,
in order to avoid higher tax in the future, consumers would be expected to bring consumption forward. Secondly, VAT will tend to decrease the size of the tradable sector and hence export intensity, with production and consumption shifting to nontradables. Thirdly, the feature of VAT reality is imperfect refunding of VAT paid on inputs used by exporters, if such refunds are not properly paid, VAT acts in part as an export tax (Syed & Keen 2006, 5-8).

According to the Export Helpdesk (2011) for Developing Countries VAT is the substance of EU indirect tax system. Since a percentage of VAT revenue, calculated on a unified basis, it becomes part of EU’s own resources and is allocated to the finance of EU budget. The main activities subject to VAT are: supply of goods and services, intra-community transactions and importation of goods. VAT levies on the importation of goods will be discussed here. A VAT levy on the importation of goods is usually charge when customs clearance procedures take place in order to be released for circulation. If the goods are imported into one of the member states but wants to sell it in another member state, they can be replace under a VAT suspensive agreement. VAT will be charged in the member state of consumption country, not in the member stated of the entrance in the EU. Since there is no accordant tax rate in EU, each member state can fix rates according to the following limits which established by Council Directive: 1) the standard rate will not be less than 15%, 2) member states can apply one or two reduced rates (no less than 5%) and can be only applied to very specific supplies of goods, 3) a reduced rate is allowed by the Directive but that should not be lower than 12%, 4) the Directive also allows certain member states to maintain of reduced rates lower than the 5% minimum. Even though the VAT rate scale among EU member states is not large, the case company should still be aware of the fluctuation of the VAT. And the VAT calculation formula is as follow. Taxable amount = Value for customs purposes + Customs duties and any other taxes due by reason of importation + supplementary costs up to the place of destination. (Baidu 2011)
Taxable person must fill in and submit to customs the Single Administrative Document (SAD), which goods value, place of origin, consignee, destination, price and weight must be included.

4.2 Excise

Excise duties are indirect tax levied on the importation or manufacture of certain products. Excise duties are imposed on goods which may cause environmental pollution or adverse health effects. These goods are manufactured tobacco, mineral oils, energy products and electricity, alcohol and alcoholic beverages.

Since the case company is going to export aluminum foil into EU market and it does not confine to the product range mentioned before. The detailed information of excise duties will not be discussed further more.

4.3 General requirements

There are six documents must be accompanied all products when entering the EU market. They are commercial invoice, freight document, packing list, customs value declaration, freight insurance and single administrative document (SAD).

By knowing the substance of these six compulsory documents, the case company may work more efficient, and less mistakes as well as misunderstandings will be occurred during exporting.

Export Helpdesk (2011) for Developing Countries states that the commercial invoice is an evidence or record of the transaction between the exporter and the importer. In order to charge for the goods, the exporter issues a commercial invoice to the importer as soon as the goods are available. The commercial invoice is always required for customs clearance. Even though there is no harmonized form of commercial invoice, data such as information of importer
and exporter, invoice number and description of the goods are generally included.

Export Helpdesk (2011) for Developing Countries says freight documents should be filled in and presented to the customs authorities of importing EU member state upon importation in order to the clearance of the goods. Different types of documents need to fill due to the ways of transport used.

As geographic and financial reasons, the case company should use marine as the means of transport. And the Bill of Lading (B/L) needs to be filled during the export process. B/L is a document issued by the shipping company to the operating shipper. It evidences the contract of carriage and conveys title to the goods; it means that the owner of the goods bears the Bill of Lading. There are different types of bills of lading due to the different means of transport. Actually there are two types of bills of lading can be considered by case company. The first is straight bill of lading and the second is shipper’s order bill of lading.

Hinkelman (2008) has been defined that straight bill of lading is a non-negotiable document; it indicates that the shipper will deliver the goods to the consignee and the consignee need only present identification to claim the goods. Straight bill of lading is often used when payment method is cash in advance or open account. Shipper’s bill of lading is a negotiable document; it can be bought, sold or traded while goods are in transit, since it is negotiable. Shipper’s bill of lading is often used when the payment method is letter of credit.

According to the interview with Yang, who is the vice manager of the sales department of the case company, as the case company always prefer letter of credit as the way to settle accounts (Yang 2011) the case company can use the shipper’s bill of lading as exact type of bill of lading.

Stated by Export Helpdesk (2011) for Developing Countries the freight insurance
is an agreement the insured is indemnified when the damages are caused by a risk covered in the policy. More common risks exist during handling, storing, loading or transporting cargo, so insurance becomes important in the transport of goods. The 1968 International Convention on Bills of Lading dictates the marine carrier’s responsibility when transporting international goods. So far there is currently no harmonization at European Union level.

According to Export Helpdesk (2011) for Developing Countries the packing list (P/L) is a commercial document concomitant with the transport documents and the commercial invoice. The information of exporter, importer and transport company; type of packing and net weight, gross weight and measurement of the packages are commonly seen in packing list. By following the packing list data stated above, the packing list formed by the case company will be accepted by most of EU member states. Unless there are specific data need to be contained, due to the requirements of difference member states.

Export Helpdesk (2011) for Developing Countries clarifies when the value of the imported goods exceeds EUR 10,000, the Customs Value Declaration must be presented to the customs authorities. There is an official formation of Customs Value Declaration. The Customs Value Declaration form has to be presented together with the Single Administrative Document (SAD) to the customs authorities. The purpose of Customs Value Declaration is to fix the customs value to apply the tariff duties by accessing the value of the transaction.

Single Administrative Document (SAD) is a document used to declare the importations to the customs authorities. Export Helpdesk for Developing Countries (2010) details that it is the common import declaration form for all member states. In SAD all the main information should be declared, which are identified data of the importer, exporter; custom approved treatment; country of
origin, country of export and destination; declaration and method of payment of import taxes. As it mentioned before, SAD has to be presented together with the Customs Value Declaration document to customs authorities.
5. ANALYSIS OF THE BUSINESS ENVIRONMENT

5.1 Definition of Business Environment

Business environment consists of two components: Macro environment and Micro environment. It is defined as a set of conditions-Social, Legal, Environmental, Political or Institutional that are uncontrollable in nature and affects the functioning of organization.

Macro environment of business consists of all the factors which have indirect impact on business. Usually a PEST (Political, Economical, Socio-cultural and Technological) analysis is used to examine the macro environment of business. Micro environment of business consists of all the factors which have direct impact on business. They are usually called interest groups or stakeholders. The macro environment of business is uncontrollable, while the micro environment of business is controllable.

Only the macro business environment will be analyzed, since the vice manager of sales department thinks the brief understanding of the export market is more important for them at this moment (Yang 2011).

5.2 Analysis of the Macro business environment

When a company enters a new foreign market, careful research and analysis of the business environment is very necessary. A PEST analysis is a method to examine the political, economical, socio-cultural and technological environment of the new market that affects all companies. It is a useful tool for monitoring and evaluating forces which after the organization over the long term. The environmental scanning is influenced the company performance (Morrison 2002, 23). According to Henry (2008), by using PEST analysis, the trends in the external environment can be detected and it helps firms to find their way in competitive environment. Sometimes, the business environment presents
threats and challenges. By analysis the threats and challenges, firms should enhance their strengths to deal with the threats and challenges and they can even take these threats and challenges as advantages. Chapman (2010), PEST is also extended to PESTELI by adding Ecological factors, Legislative factors and Industry factors. The reason to choose PEST analysis other than SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is a PEST analysis most commonly measures a market, but a SWOT analysis measures a business unit, a proposition or an idea. In the following paragraphs the macro environment of international business will be described and illustrated in the case company’s point of view. The main elements in PEST analysis (Table 3) and the EU – China PEST analysis (Table 4) will be seen in the following text.

Table 3: PEST analysis of business environment (Morrison, 2002)

<table>
<thead>
<tr>
<th>Political–legal factors:</th>
<th>Economical factors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1).Political Stability</td>
<td>1).Interest rate</td>
</tr>
<tr>
<td>2).Level of freedom</td>
<td>2).GDP</td>
</tr>
<tr>
<td>3).Intensives to foreign investors</td>
<td>3).Inflation rate</td>
</tr>
<tr>
<td></td>
<td>4).Unemployment rate</td>
</tr>
<tr>
<td></td>
<td>5). Wage level</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Socio-cultural factors:</th>
<th>Technological factors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1).Growth rate of population and age</td>
<td>1).Government spending on R&amp;D</td>
</tr>
<tr>
<td>distribution of population</td>
<td>2).Legal regime for patent protection</td>
</tr>
<tr>
<td>2).Languages</td>
<td>3).Transport infrastructure</td>
</tr>
<tr>
<td>3).Educational level</td>
<td>4).Innovation system</td>
</tr>
<tr>
<td>4) Role of women</td>
<td></td>
</tr>
</tbody>
</table>
Table 4: PEST analysis: EU vs. China

<table>
<thead>
<tr>
<th>Political–legal factors:</th>
<th>Political–legal factors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1). Stable political environment</td>
<td>1). Stable political environment</td>
</tr>
<tr>
<td>2). Political-legal conditions within EU are partially harmonized</td>
<td>2). Favorable terms for foreign investment</td>
</tr>
<tr>
<td>3). Harmonized trade policy provide convenience</td>
<td>3). Governments works efficient</td>
</tr>
<tr>
<td>4). Specific trade policy for developing countries</td>
<td>4). rule of man ➔ rule of law</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economical factors:</th>
<th>Economical factors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1). Interest rate: 1.25%</td>
<td>1). Interest rate: 2.0%</td>
</tr>
<tr>
<td>2). GDP: 1.9%</td>
<td>2). Inflation rate: around 5%</td>
</tr>
<tr>
<td>3). Unemployment rate: ~10%</td>
<td>3). GDP – the world average increase is 3.7%, while China is 9% and the GDP per capita is $3000</td>
</tr>
<tr>
<td>4). Inflation rate: 2.1%</td>
<td>4). Unemployment rate: 4.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Socio-cultural factors:</th>
<th>Socio-cultural factors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1). Natural growth rate of population is 2.7‰</td>
<td>1). Natural growth rate of population is lower than 1%</td>
</tr>
<tr>
<td>2). Population structure is pyramidal</td>
<td>2). Population structure is pyramidal</td>
</tr>
<tr>
<td>3). High educated level</td>
<td>3). The distribution of population and the educational level between urban and rural areas are unbalanced</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technological factors:</th>
<th>Technological factors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1). One of the most technology developed area/continent</td>
<td>1). Internet helps economic development</td>
</tr>
<tr>
<td>2). Efficient transport network</td>
<td>2). Government gives lots of supports in infrastructure development</td>
</tr>
<tr>
<td></td>
<td>3). Fast growing in road construction</td>
</tr>
</tbody>
</table>

5.2.1 Political and legal factors

Political and legal factors play a critical role in international business. International business decisions are affected by the actions of government bodies at all levels. Government becomes involved in international business, the interaction between government and business has grown. Both internal and external factors begin to play roles in political dynamics of every society (Morrison 2002, 180).
The political environment in most countries tends to provide general support for the international marketing efforts of the country’s form. A government may work to reduce trade barriers or to increase trade opportunities through bilateral and multilateral negotiations. Governments also have specific rules and regulations restricting international marketing, such as trade policy and national security (Czinkota & Ronkainen 2004, 132). There are different kinds of restrictions and controls that are specifically concerned with exports and imports. License requirement, tariff, quotas, qualitative controls and exchange controls will all affect import/export of the company (Albaum, Strandskov & Duerr 1998, 83-87).

Political risk is defined as the risk of loss when investing in a given country caused by changes in a country’s political structure or policies. In general, political risk is lowest in countries that have a history of stability and consistency. Ownership risk, operating risk and transfer risk are major types of political risk. Political risk can be the result of government action, but it can also be outside the control of government (Czinkota & Ronkainen 2004, 144-151). To manage the political and legal risks of EU market as well as succeed in this market, the case company needs much more than business know-how, but also deals with the intricacies of EU politics and laws. A full understanding of EU’s legal and political system is very necessary; however, the case company should also be aware of the importance of this system and works with the people who do understand how to operate within the system.

The political environment of EU market is stable; EU now has grown to a single market and speaks in one voice. Political and legal conditions within European countries are only partially harmonized, and allow the marketer to include various crucial criteria in the evaluation of the marketing mix. The degree to which European countries adopt EU legislation and opt for integration, defines the degree of harmonization of political and legal factor advantages. (Suder 2008, 196)
Standardization is a priority for EU. It can be seen from different aspects. The trade policy of EU market is harmonized, custom valuation, rule of origin, tariff are all in one standard except tax rate. The harmonized trade policy provides a convenience for the companies who want to enter EU market. In order to help the economic development of developing countries, EU also has specific trade policy for those countries.

Compared with EU, China also has a quite stable political environment. Even though western media broadcast a lot of negative news of Chinese political environment. As a Chinese it can be seen that the political situation in China is very stable, although there are some problems such as Tibet and Taiwan issues. There is only one party in China and it holds the political rights tightly, it’s impossible to shake the position of the party in power.

With the fast development of economy, Chinese government provides favorable terms on tariff towards foreign investment. China is the only country in the world that the foreign companies pay less tax than local or government-owned enterprises. Comparing with past, less paper work and shorter inspection period are provided for foreign investors. Meanwhile, the law system in China is becoming more and more healthiness and the rule of man situation is changing to rule of law. Besides, there are some companies that shares are hold by Chinese government and foreign investors. This action gives more guarantees and less risk to foreign investors.

There are hardly any serious political risks that the case company should be worried, since the political environment in EU is stable. Because of the special trade policy made for developing countries, it makes the market entry to EU easier for developing countries. There is one thing that the case company should pay attention, shows the respect and obeys of the laws of EU is necessary as well as be familiar with all regulations made on international and EU levels that affect the case company’s export to EU.
5.2.2 Economical factors

The economic activity of every nation makes up its national economy. There are numerous economic indicators in every nation, including businesses, consumers and governments. Businesses shapes the economic environment, consumers would like lower price but higher wage, government as the key indicator impacts on businesses and consumers through policy formation. (Morrison 2002, 60) For success marketing, it is better to have stable economic conditions.

Harris and McDonald (2004) states inflation rates, balance of payments, exchange rate stability, government budgets and the record of growth will be considered to evaluate the prospects of economic instability or crisis. These factors are likely to be similar within the European Union, especially within the Euro zone. Purchasing power, which is a function of income, prices, savings and credit availability. Income is the most indicative of the market potential for most consumer and industrial products and services. The share of income spent on necessities will provide an indication of the market’s development level as well as an approximation of how much money the consumer has left for other purchases. In Western Europe, expenditures on clothing typically account for 5% to 9% of all spending. In China, the average rural citizen spends €3 on goods other than food and less than €1 on entertainment, while the amount is €7 for both in the cities. Besides income and consumption power, inflation is another indicator to be aware of when analyzing the market. Inflation affects the ability of both industrial customers and consumers to buy and introduces uncertainty into both the companies’ planning process and consumers’ buying habits. In high-inflation markets, companies may have to make changes in the product, promotion and distribution to meet customer needs and maintain demand (Czinkota & Ronkainen 2004, 97-103).

European Union is the largest economy in the world with the GDP of €12,268,389 million in 2010. There has been a minus increase of GDP in 2009
which was -4.3% due to the economic crisis. The GDP increased by 1.9% in 2010 and the estimated GDP growth will be 1.6% and 0.6% in 2011 and 2012 respectively. The interest rate set by Central European Bank (2011) is 1.25%. The unemployment rate is around 10% from October 2010 till September 2011. It is important to be aware of the unemployment rate in EU reaches the historic heights. The inflation rate is another economic indicator. In 2008 the inflation rate was 3.7%, decreased by 2.6% in 2009 and increased to 2.1% in 2010 (EU Commission 2011). Within the EU member states, parts of Poland, Portugal, Greece, southern Italy and Spain, eastern Germany, eastern Finland and the west of Ireland traditionally show the lowest income figures. The highest incomes can be found in the Ile-de-France area including Paris and surroundings (Suder 2008, 114). The real wage growth in Euro zone was between -1% and 1.5%. (European Economic Forecast – Autumn 2011, 65) Government budget of EU in 2010 was €120,490 million and the assigned revenue was €5,796 million. (EU Budget 2010 Financial Report, 12-13)

In 2008, the interest rate of China was 2.0% and the inflation rate was around 5%. As China is the fastest developing economy, the GDP growth in 2008 was 9% with the world average growth 3.7%. Even though the GDP grows very fast, the GDP per capita is only €2000. The unemployment was 4.2%, the biggest unemployment group is graduates.

When exporting to EU market, observation and monitoring economic factors mentioned above is very necessary for case company. In addition, in industrial business – to – business market, the market demand heavily depends on the economic growth and decline. Due to this fact, the case company needs to pay more attention on the economic forecast of EU markets, especially during recession period, since there was a huge price fluctuation of metal product during the crisis. In addition, the economic crisis also has an effect on the case company’s profit margin.
5.2.3 Socio-cultural factors

Culture is defined as an integrated system of learned behavior patterns that are distinguishing characteristics of the members of any society. The understanding of cultures is crucial for marketing across borders since it defines norms and values, behaviors and perceptions, as well as performance of the consumer. (Suder 2008, 201) Consumers buying behavior and the way managers plan and implement international marketing are influenced by socio-cultural environment. Culture should not simply be seen as an obstacle to doing business across cultures. It also provides benefits and can be used as a competitive tool of a competitive marketing strategy. Successful marketing always depends on an understanding of culture (Albaum, Strandskov & Duerr 1998, 69-71).

There are several rules to make culture work for marketing success: 1) Showing sensitivity to local customs helps local acceptance and builds employee morale. 2) Establishing and nurturing local ties at the various stages of the market-development cycle develop relationships which can be invaluable in expansion and countering political risk. 3) Developing human resources and business partnerships are the best way to understand a market. 4) Employing locals will give a company a valuable asset in market development (Czinkota & Ronkainen 2004, 84-85).

EU covers more than 4 million km² and has 495 million inhabitants, the world’s third largest population after China and India. With world’s 7% of population contribute world’s 20% fortune, EU is an efficient market, stated by European Union (2010). However, the EU now is facing a serious problem – aged tendency of population. The natural growth rate was 2.7‰ in 2010.

With 27 member states, EU has 23 official languages. Language seems to be an issue to pay attention on. However, with high educated level, everyone in EU can speak English at least basic English, and EU actively encourages acquisition of
language skills from an early age. So language problem should not be worried by the case company. Still there is a slightly difference in labor relation between EU countries and China. Trade union is a place where workers organize themselves. The purpose for forming a trade union is to achieve higher wages, better working conditions and greater security of employment (Morrison 2002, 171). When workers willingness cannot be satisfied, usually there comes a strike. According to the former exporting experience to Greece, strike is a common issue which the case company deals with. Yang (2011) comments “our containers usually stay two to four days on Greek harbor, because of the strike. However, we can do nothing about this just cross fingers and wish the strike will not last long.”

In China the natural growth rate of population is lower than 1%, according to statistics in 2008. Even though the growth rate is low, the population base is large. The population structure of China is pyramidal; the biggest group of Chinese population is between 19 to 68 years old which occupies the 70.92% of the population. The consumers who have the largest consumption power are also in this group (30 to 55 years old).

The distribution of population and the educational level between urban and rural areas are unbalanced as well as the income level. It is said that Shanghai, the most internationalized city has reached the standard of been a totally developed territory. However, in the southwest of China, lots of areas are extremely poor; the average annual income in these areas is less than 5000 RMB, approximately €400. Nowadays, women act a more and more important role in the society.

With large population base, the personnel cost is very cheap. The wage gap between EU and China is huge. When the case company entering EU markets, it is better to hire personnel who know its business field well in China rather than EU.
5.2.4 Technological factors

Technology is a key driver of globalization and world economy, it is also vital for competitive advantages. In competitive environment, technological innovation and the capacity to sustain a technological lead are crucial to success, for both companies and countries. Technology changes have impact on the ways in which organizations operate in interdependent global networks and it also reduces the operation costs. The creation and adoption of technological know-how can be influenced by social, cultural and political factors in national environments (Morrison 2002, 279). Europe is one of the most technology developed area/continent in the world; EU is in the leading position of most technology developments, such as, new energy, auto industry, outer space project and etc.

When analysis the technological factors of business environment, infrastructure development is an important indicator, especially the transport infrastructure, since it is fundamental for the smooth operation of internal market. In EU 27 countries comprise 5,000,000 km of paved roads, out of which 65,100 km are motorways, 21,280 km of rail lines, out of which 110,458 km electrified, and 42,709 km of navigable inland waterways. The total investment on transport infrastructure during 2000 – 2006 was €859 billion (European Commission 2011). Stated by European Commission (2011) that in order to establish a single, multimodal network that integrates land, sea and air transport networks throughout the union, EU policymakers decided to establish the trans-European transport network, so that goods and people will circulate quickly and easily between Member States and assure international connections. The liberalization of EU transport system will facilitate a cheaper and more extensive transport infrastructure to meet consumer demand and this is essential to wealth creation (Branch 2006, 538).

Compared with EU, the technology development in China is quite undeveloped,
for instance, internet hardly spreads into urban areas and transport network is very poor. However, there are goods aspects: intellectual property laws in China become more internationalized and government gives lots of supports in infrastructure development.

The case company will benefit from the developed technology and transport infrastructure of EU. The efficient transport network reduces the distributing costs, saves time, and even helps company explore wider market within EU.
6. EXPORT PROCEDURE

6.1 International sale contract

The international sale contract is the central contract in export transactions. The contract is created by the conjunction of offer and acceptance. A good sale contract will cover all the principal elements of the transaction, so that uncertainties are avoided. The Vienna Convention on Contracts for the International Sales of Goods (CISG) has its scope and applies to international commercial transactions (O'Connor 2008, 77-78).

CISG is undeniably a landmark document which plays a central role in international commerce. It is sufficiently comprehensive and balanced that more and more parties are likely to turn to it as an alternative to protracted negotiating contests in which each side seeks to impose its own domestic law.

Ramagopal (2006) states that contract is a legal term. In simple terms, contract is an agreement that can be enforced in law. When goods are sold, both seller and buyer can enforce the agreement. Under most legal systems, when a sufficiently precise offer by one party is accepted unconditionally by another party, an international contract of sale comes into existence. A sufficiently precise offer always includes a clear description of the goods, price and payment terms and delivery terms, which includes packing, invoicing, transportation and insurance instructions (O'Connor 2008, 80).

Sharma (2008), where under a contract of sale, the property of goods is transferred from the seller to the buyer, it is called a sale. Contract of sale is the central contract of export and import. There must be two parties in the contract of sale, seller and buyer. Seller means the person who sells or agrees to sell his/her product; buyer means the person who buys or agrees to buy the product. Price, quantity, products, delivery and payment terms are the key elements that
should be specified in a contract of sale.

There are key clauses which states by Shippey and Karla (2008) that the seller and the buyer should be checked before forming a contract of sale: 1) contract date, 2) description, price and quality of the goods, 3) Payment method and exchange rate, 4) costs and charges of duties, taxed and insurance, 5) delivery date, place and transfer of title, 6) detailed transportation information, 7) import/export documentation, 8) warranties and authority to bind.

Contract of carriage is signed between the shipper and the carrier. Who act as the shipper, this depends on which types of contract of sale they choose; and the carrier is always the transport company. The contractual terms and conditions of transport contracts are generally found in bill of lading which plays triple role in the international sales transaction: transport contract, evidence of receipt of goods and document conferring the right to control delivery of the goods (O’Connor 2008, 45). Shippey and Karla (2008) says that Incoterms, defined by the International Chamber of Commerce is the mostly used terms in international trade, which assigns responsibilities for the risks and cost of transport.

6.2 Incoterms 2010

Incoterms are the most widely used trade terms; it describes the tasks, costs and risks involved in the delivery of goods from the seller to the buyer. The seller needs to make it clear in the contract, if s/he would like to use Incoterms in his/her contract.

Incoterms was first published in 1963 by International Chamber of Commerce (ICC), the newest edition in used is Incoterms 2010. By choosing suitable terms for companies it reduces the operation costs as well as the risk of loss of or damage to the goods (Incoterms 2010).

EXW - “Ex Works” Shippey states (2008) it means the seller makes the goods
available at his/her named place. The seller must deliver the goods by placing them at the agreed point. The buyer bears greatest responsibility and the seller bears minimum obligation. EXW is normally used in domestic trade; it is not suitable for the case company to use.

FCA (free carrier), CPT (carriage paid to) and CIP (carriage and insurance paid to) were specifically developed for containerized and multimodal transport, they are suitable for all modes of transport. These terms were designed for a maximum of flexibility, thus they can be used for virtually all modes of transport, including traditional bulk maritime transport (O’Conner 2008, 103).

FAS (free alongside ship), FOB (free on board), CFR (cost and freight) and CIF (cost, insurance and freight) are used only when the mode of transport is marine or water transport. Among these four Incoterms FOB and CIF are the most preferable terms used by the buyer.

According to Papa and Elliot (2009) by using FOB, the seller must deliver the goods on board and clear the goods of export. The seller needs to notify the buyer without delay as soon as the goods are delivered on board. Before the goods pass over the ship’s rail at the port of loading, the seller bears all the costs and risks of the goods. The seller should also provide the “certificate of origin” at the buyer’s request. From the buyer aspect, the buyer bears all costs and risks as soon as the goods pass the ship’s rail. By using CIF, the seller has the obligation to clear the goods of export, ship the goods contained in the contract, and obtain insurance at current rated for the benefit of the buyer. At the same time, bears all the risk before the goods pass the ship’s rail. For the buyer, the buyer bears all the costs and charges in the transit of the goods to the buyer’s port. All risks is transferred to the buyer when the goods pass the ship’s rail at the port of loading.

Besides E-term, C-term and F-term, there is D-term which includes DAP
(delivered at place), DAT (delivered at terminal and DDP (delivered duty paid). In D-term, the seller bears minimum obligation while the buyer bears all the responsibilities during the transport, so that D-term is seldom used.

From the description above, CIF and FOB are most suitable terms that can be used by the case company. In CIF term, even though the seller must pay the costs and bring the goods to the named port, the risk of loss of or damage to the goods and any other additional costs will be transferred to the buyer after the time of delivery. This is to say the risk of loss of or damage to the goods is reduced from the seller’s perspective. CIF term is applied for sea and inland waterway transport which perfectly meet the mode of transport the case company is going to use. In FOB term, with the similar characteristics of CIF term, the seller has the obligation to deliver the goods to the nominated port, and the costs and risk of loss of or damage to the goods is transferred to the buyer when the goods pass the ship’s rail at the nominated port of shipment; FOB term is applied for sea and inland waterway transport as well.

Compared with FOB and CIF terms, the process of FCA, CPT, CIP, FAS and CFR term is little bit complicated, while DAT, DAP and DDP term give the seller the minimum obligation, and the buyer bears all the responsibility during the transport, which the buyer seldomly agree to use these D-terms.

6.3 Mode of transport

In general, there are five modes of transportation, sea transport, road transport, rail transport, air transport and multimodal transport. Since the case company is going to export aluminum foil from China to EU, by considering the weight and the size of the product as well as the distance between China and EU, air transport will be costly and road transport will not meet the amount of the order. Rail transport and sea transport both fit the requirements, but sea transport will be much easier to handle since the entire product the case company exports all use sea transport (Yang 2011).
Weiss (2008) states the largest weight and volume of international cargo are moved by ocean freight. Ocean freight has the ability to handle huge weights and volumes which provides a huge cost advantage. More than 80% of international trade in goods is carried by sea, and an even higher percentage of developing-country trade is carried by ships. (UNCTAD 2010) Sea transport is a capital-intensive method of distribution and involves vast investment sums. The vessels have become modestly faster because of the technology development. Ship is more productivity, the service quality of shipper operator has improved and the price of sea transport is more competitive (Branch 2006, 102-103).

6.4 Packaging

Packaging techniques today are more developed. Risk of damage and pilferage are reduced due to the improved standards. A better utilization of transport capacity to lower distribution cost. The cargo handling improved as well. The price of packaging among various manufacturers is now very competitive. There are various factors may influence the nature of packaging for an international consignment, such as, value of the goods: the high-value consignment usually attracts more extensive packaging than low-value merchandise; the type and length of transit; the international consignment delivery terms of sale; ease of handling and stowage; the size of the cargo; type and size of container; cost of packaging and so on. Packaging is not only a form of protection to reduce the risk of goods being damaged, but also to prevent pilferage and aid marketing. It is essential to see not only the type of packing is provided, but also the correct quality and form of container is used (Branch 2006, 182-187).

Weiss (2008) says the cost of break bulk packing is high but it has some resale value in certain countries overseas and the packages will be subject to the potential risks of being dropped by handlers or handling equipment, crushed by heavy cargo, or soaked in seawater. Besides, this form of packing is wooden in construction and varies in size and capacity.
6.5 International payment option

International payment methods are similar with the domestic business payment; however, more risks and complexities would be appeared in international transactions.

According to Hinkelman (2008) there are four international payment methods: open account, cash in advance, collection and letter of credit. The payment method that chosen between the seller and the buyer depends on their relationship, the nature of merchandise, industry norms, the distance between the seller and the buyer, the potential for currency fluctuation, and political and economic stability in either or both countries.

6.5.1 Open account

When using open account payment term, it means that the seller agrees to deliver the goods before the buyer paying the goods within a nominated time. Common terms are 30, 60 or 90 days.

Hinkelman (2008) says open account payment term is the most secure and flexible term for the buyer. However, it leaves the greatest risk to the seller, since the buyer will not comply with the terms of contract and pay as promised.

Open account term is always seen in domestic transactions, it stands very little proportion in international transactions. Generally speaking, open account payment terms can be only expected from the seller when a strong relationship has built between the seller and the buyer.

6.5.2 Cash in advance

Cash in advance is a high risky payment method from the buyer’s perspective, but provides the seller with the most security. It requires the buyer to pay the seller before the shipment of goods ordered.
Cash in advanced can be made by bank draft, check or through a wire payment to the bank account that specified by the seller. In general, there are only two categories of sellers can require cash in advance terms: those fortunate to have unique or high-demand products, and the seller getting orders from unknown buyers in unstable countries/areas. Cash in advanced can be used when shipping a small sample order to the buyer; meanwhile, the buyer cannot ask for cash in advanced payment terms unless the seller willing to provide. This type of payment terms are seldom used in international transactions (Hinkelman 2008, 12).

6.5.3 Documentary Collection

Collection is an order by the seller to his/her bank to collect payment from the buyer in exchange for the transfer of documents that the holder can take possession of the goods. It has been argued (Senechal & Collyer 2008, 163) that the documentary collection gives the seller’s right that the seller can retain the goods until he/she received payment.

This type of payment terms is secure and almost equal risk for both seller and buyer. Compare with documentary credit/letter of credit, it is cheaper and easier to use.

6.5.4 Documentary credit (L/C)

Documentary credit or letter of credit is a bank’s promise to pay the seller presents the buyer as soon as the seller complies with precisely agreed terms and conditions specified in the credit. It gives almost equal security to both the seller and the buyer.

Hinkelman (2008) states when the letter of credit is issued by the buyer’s bank, the bank assumes the payment responsibility of the buyer, so that placing the credit standing of the bank between the seller and the buyer. By using letter of
credit, the seller and the buyer will not have direct communication. The bank acts as an intermediary between them. But the bank deals only with the documents which related to the goods rather than the goods themselves.

Letter of credit is the most used payment terms in international transactions since it provides the most protection for both the seller and the buyer. Before the bank is to make payment the buyer specifies the documentation required from the seller, and the seller is given assurance that payment will be made after shipping the goods as soon as the documentation is in order (Senechal & Collyer2008, 165).

Uniform Customs and Practice for Documentary Credit (UCP 600) states all the rules that apply to any documentary credit.
7. CASE STUDY: EXPORT PLAN FOR AN ALUMINIUM COMPANY

7.1 Company introduction

The case company lies in Xindu Industrial Development Zone, Chengdu, Sichuan, China. The case company has investment capital of RMB740,000,000 totally (EUR 84,646,533). Their main equipment includes continuous cast rolling line, cold rolling mill, aluminum foil intermediate rolling mill, aluminum foil finishing mill, cut-to-length line and grinding machine, introduced from Italy, Germany, Switzerland and the USA.

The case company is a professional manufacturer of converter aluminum foils, and has received praise for high quality from customers.

On 31st, December 2006, after holding 56.86% share of the case company from Wuzhou Industry of Chinese Nuclear Co., Ltd., CHINALCO becomes one of biggest share holders of the case company.


The case company has expanded its business to North America, South America, Southeast of Asia, Eastern Asia and Mid East. The total annual sales volume is between USD10 million to USD 50 million (EUR 7 million to ERO 36 million).
7.2 Export plan

An export plan is made when the company intends to sell its product to foreign countries. In this thesis, an export plan is made for the case company which would like to export convert aluminum foil to EU market. The general review of EU market and the export procedure have been described in former chapters. Now the theories discussed before will be utilized into practice. In this export plan it includes terms of sale that which kind of terms is the best alternative for case company; which container type to choose by the case company, the packing and labeling the product. For the sake of minimizing export risk, which kind of payment terms the case company should use is included in this part. Last but not least, the documentations required during the export process are going to be presented.

7.2.1 Terms of Sale

According to the explanation of Incoterms 2010 (see chapter 6.3.1), the case company has two alternatives: FOB and CIF. The comparison of FOB and CIF terms has been made in former chapter, but if we take a deeper look at the description of either term, we could find that FOB is the best term for the case company to use, as the simple handling process, low cost and low risk.

FOB (Free On Board…) the seller has the obligation to provide the goods, deliver the goods on board and clear the goods of exports. After the goods passing the ship’s rail at the port of shipment which nominated by the buyer the seller bears all the risks of loss or damage to the goods. This makes the case company bears less risk of the products. The buyer must pay the price of goods as provided in the contract of sale. The seller has no obligation to the buyer to make a contract of carriage as well as the contract of insurance. The buyer should make these contracts at its own expenses. These two obligations make the handling process easier and also reduce the cost.
Compare with FOB, CIF (Cost Insurance and Freight...) seems a little difficult and costly for the case company to use. Speaking about the difficulties when using CIF, besides delivering the goods on board, the seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage. Meanwhile, there are two critical points exist in CIF term, as risk passes and costs are transferred at different places. According to the Incoterms 2010, in the contract of sale, it always specifies the destination port, but it might not specify the port of shipment, where risk passes to the buyer. If the shipment port is the interest to the buyer particularly, the parties are well advised to identify it as precisely as possible in the contract. From the perspective of cost, by using CIF term it requires the seller to obtain contract of insurance and to provide the buyer without delay with the usual transport document for the agreed port of destination at its own expense and the seller must pay any other costs related to the freight, loading the goods and so on (Incoterms 2010).

7.2.2 Freight forwarder

Even though the case company has conducted export business a lot, the company still lacks of resources and knowledge to conduct international shipping itself. Due to this fact, it is essential for the case company to find a logistics company which could handle the transportation and forwarding of the goods.

To find a suitable logistics company, few points need to be considered: Is the company a full-service freight forwarder? Is the company certificated to handle hazardous shipments? Does the company have global capability? How price is determined? (Minnesota District Export Council, 2009)

By keeping these questions in mind, there are three companies that have been chosen: COSCO, DHL and UPS. I sent e-mails to these three candidate companies to ask about the price and specific services they provide, unfortunately none of them respond my e-mail. So the choice of the freight
forwarder is totally based on the description of its service on webpage. After comparing these three freight forwarders, DHL has been chosen to be used by the case company.

Compared with other two freight forwarders, DHL has four competitive advantages. Firstly, DHL is global market leader in the logistics industry and the logistics company for the world. As a part of the World’s Leading Logistics Group, DHL offers integrated services and tailored, customer-focused solutions for managing and transporting letters, goods and information. DHL Global Forwarding is the global leader in the air and ocean freight markets and DHL Freight is one of the largest freight forwarders in the European overland transportation business. (Global Forwarding, Freight Division, 2012) Due to this fact, the case company will not only use DHL to transport its product from China to EU, but also use it to transport its product within EU. Secondly, DHL provides Less than Container Load (LCL) shipments as well as Full Container Load (FCL) shipments as customer’s needs. The choice of shipment type is flexible, depends on the volume of the product which the case company is going to export, it can either choose LCL shipment or FCL shipment. Thirdly, with the long term relationships with carriers, DHL enable to offer customer delivery flexibility and a competitive price. Mentioning about the price, there is a campaign going on offered by DHL, customer who book its service between 15th of January, 2012 and 15th of March, 2012 will get a discount. (Beyond Port to Port, 2) Finally, besides product transport DHL also provide customs clearance service. (DHL Customs Services Expertise that Makes the Transit Easy, 1) As the case company is using FOB as terms of sale, it requires the seller to clear the goods of export. With the extra service provided by DHL, the export process of the case company is simplified.

When sign the freight forwarder contract with DHL, the case company needs to contact DHL about the price of shipment and any other issues related.
7.2.3 Packing and Labeling

Considering about the products of the case company is going to sell as well as the cargo type of the case company is going to use, wooden packing with waterproof cases is the preferred alternative. The weight of wooden cases is light and with waterproof material the products are better stored and prevented from water or wet during the transportation. This form of packing gives complete protection and lessens the risk of pilferage plus it is an aid to handling and varies in size and capacity. (Branch 2006, 188-189).

Associated with packing is the labeling of cargo. The export shipping mark and number is vital in the correct identification of the shipment irrespective of the transport mode. In addition, it must be simple, easily identifiable and not masked with irrelevant information or old markings. When the case company labeling its cargo, all packages should be marked as following: container operator's/ship owner's booking reference number; intended ship or voyage; and name of combined transport operator (Branch 2006, 200-201). These three elements are especially used when the shipment is FCL or LCL cargo.

7.2.4 Import levies

When the case company export product to EU, there are few import levies should be aware of. First is tariff. EU Commissions set different tariff to different product. The tariff of convert aluminum foil is 7.5% which has been mentioned in chapter 3.3. The TARIC code of the product is 7607 11 19 90. TARIC is an online customs tariff database of European Commission which measures tariff of commercial and agricultural products. By entering in TARIC code of the product and choose the country of origin, the tariff of the specified product will be calculated. (European Commissions 2011)

Followed by is VAT. Even though EU is an integrated economical community, the VAT rate of each member states is various (Table 9).
<table>
<thead>
<tr>
<th>Member states</th>
<th>Standard rate (%)</th>
<th>Reduced rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>20.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Belgium</td>
<td>21.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>20.0</td>
<td>-</td>
</tr>
<tr>
<td>Cyprus</td>
<td>15.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Demark</td>
<td>25.0</td>
<td>-</td>
</tr>
<tr>
<td>Estonia</td>
<td>20.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Finland</td>
<td>23.0</td>
<td>9.0-13.0</td>
</tr>
<tr>
<td>France</td>
<td>19.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Germany</td>
<td>19.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Greece</td>
<td>23.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>25.0</td>
<td>5.0-18.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>21.0</td>
<td>9.0-13.5</td>
</tr>
<tr>
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<td>10.0</td>
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<tr>
<td>Latvia</td>
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<td>6.0</td>
</tr>
<tr>
<td>Malta</td>
<td>18.0</td>
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</tr>
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<td>8.0</td>
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<td>Portugal</td>
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<td>6.0-13.0</td>
</tr>
<tr>
<td>Romania</td>
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<td>9.0</td>
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<tr>
<td>Slovak Republic</td>
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<td>10.0</td>
</tr>
<tr>
<td>Slovenia</td>
<td>20.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Spain</td>
<td>18.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>25.0</td>
<td>6.0-12.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>20.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

### 7.2.5 Payment terms

The frequently used payment terms in international trade has been explained in chapter 6.6. From the explanation, it can be seen the documentary credit, also known as letter of credit, is the most secure payment term for the case company to use, as bank act as an intermediary between the seller and the buyer.

The case company is the seller and gets advices of the credit from its bank which is called advising bank. After signing the contract with the buyer, the buyer applies to open a documentary credit that names the case company as the beneficiary in the buyer’s bank which is called issuing bank. If modifications to the terms of the credit appear, the case company should contact the buyer...
immediately and request an amendment of the credit. This amendment will process among the buyer, the issuing bank and the advising bank. The final amendment of credit will be informed to the case company by advising bank.

When issuance and amendment has settled, the case company needs to aware of other two procedures in letter of credit which are utilization and settlement. Once the case company ships the goods to the buyer and presents the required documents to the advising bank, the advising bank will pay the case company after the documents has been audited. Similar process goes on to among advising bank, issuing bank and the buyer. As soon as the payment is received the issuing bank will send the required document the party who takes charge of the shipment. The last part of documentary procedure is settlement. As a matter of fact, there are two kinds of settlement: settlement by payment, settlement by acceptance and settlement by negotiation. Having compared the characteristics of these three settlements, settlement by payment will be easier for the case company to handle. The case company will get the value of credit as soon as the terms and conditions of the credit have been met. However, since the case company is doing international business, it will take time between the case company’s presentation of documents and the actual transfer of the funds to the case company’s account, since the foreign exchange is at issue (Hinkelman 2008, 53-60).

During each procedure, banks on the both sides act as an intermediary by giving advice and issuing documents. The risks of payment for both parties are reduced.

The case company may consider choosing Bank of China, Xindu Sub-Branch as the advising bank, since it is the first bank in China who operates documentary credit and has been professional in this field. Besides, with the long-term relationship in domestic business with Bank of China, the bank may provide better service.
7.2.6 Documentation Required

The documents required when exporting to EU and practical issues apply to the case company have been described precisely in chapter 4.3. The case company needs to carefully check the required documents as well as the details present in the documents before exporting.
8. CONCLUSION

This chapter summarizes the process of the study, the answers of research questions are summarized, and the evaluation of the study, the managerial implications of the study as well as the suggestions for further research will be listed.

8.1 Major Finding

The purpose of the study was to provide a basic understanding of trade policy and business environment of European Union for the case company, an aluminum manufacturer which is partially owned by Chinese government. Export procedure and an export plan were also included in the study.

From the study, it can be easily seen that EU and China has a stable diplomatic relationship. EU and China see each other as important partner and relies on each other. The trade statistics between EU and China indicates EU is China’s biggest trade partner and during the last decade, China developed rapidly and will soon exceed the USA become EU’s biggest trade partner.

The European Union is building a fair, health and openness market. Openness trade policy is set to the whole world especially to developing countries. Bilateral trade agreements signed between the EU and China, meanwhile, with positive trade trends between EU and China, the case company will get quite a lot benefit.

Compare the results of PEST analysis between EU and China, EU is a highly developed union and presents large potential markets. The political situation in EU is stable, the law system is perfect and most of the trade policy is harmonized; the economical factor indicates the EU has been influenced seriously by the unprecedented economic crisis, however, the member states
are working together to figure out the way to survive. EU is one of the most technology developed union which has efficient transport network. To sum up, EU provides a good macro business environment.

Even though the case company’s failure export experience in Greek market, it still has broad succeed export experience in other markets, such as Mid-Asia, South Korea, the USA and etc. After knowing the big picture of EU market, the case company should also summarize those succeed experience so that a better result may come along.

8.2 Evaluation of the study

The study is conducted by qualitative research. All of the theories mentioned in the thesis are referred from literatures, internets and publications. In order to make the study customized and more practical, a face to face interview to the vice sales manager of the case company was carried out. The information of EU trade policy and EU business environment were gotten from EU’s official webpage which makes the answers of the research questions reliable. The structure of the study is logical and the outcome meets the case company’s objective well. However, there is not comparative analytical thinking.

From the study, I gained knowledge of EU-China trade relation, EU trade policy towards others and the business environment of EU. Meanwhile, when writing chapter 6 the Export Procedure, I reviewed the professional knowledge I learned from university.

From the case company’s side, the vice sales manager of the case company Miss Yang Jing thought, this study meets her expectation. However, the case company wishes to get the information about the channel to reach customers in EU. In addition, what is the practical degree of the study will be examined in company's further development. In export plan (Chapter 7.2) the description of freight forwarder the case company gets the idea to get rid of the intermediary
between the company and customer, by contacting freight forwarder directly that the operational cost will reduce.

8.3 Suggestions for further research

There are limitations in this thesis, the thesis is written from a trade perspective so that the information from marketing perspective such as market entry strategy, market analysis of the destination market, marketing strategy as well as benchmark competitors are not discussed. However, in order to conduct an excellent export plan, both issues should be carefully analyzed. Besides, the micro business environment which related to the case company itself needs to analyze as well.

I would suggest the further research may focus on a marketing perspective and the internal business environment of the company.
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Yang, J 2011, vice sales manager of Huaxi Co., Ltd., Interview 15 August 2011
APPENDICES

Interview of Vice manager of Sales Department

INTERVIEW
Yang Jing
Vice manager of Sales Department

Time of interview: 15.08.2011
Place of interview: Xindu, Sichuan, China

1. Since the company used to export to Greece, the United States, India, South Korea, Dubai and Bahrain what feedbacks did you get from these countries and why only the export with Greece did not last long?

2. With the failure export experience in of the EU member states, why the company still want to explore the EU market?

3. What are the difficulties the company met when exporting to Greece?

4. Does the company ever do the research of EU market? Do you personally have some understandings of EU or EU market?
E-terms: the goods are placed at the buyer’s disposal on the seller’s premises or another named place.

F-term: The seller fulfills the obligation of the clear the goods for export, while the buyer bears all the cost and risk of the goods.

C-term: The seller fulfills the obligation of the clear the goods for export and pays the cost of the main international carriage, while the buyer bears the risk of the goods.

D-terms: The seller bears all the costs and risks of the good during the delivery.

Rules for any mode of transport:
- EXW: Ex Works
- FCA: Free Carrier
- CPT: Carriage Paid To
- CIP: Carriage and Insurance Paid
- DAT: Delivered At Terminal
- DAP: Delivered At Place
- DDP: Delivered Duty Paid

Rules for marine and inland water transport:
- FAS: Free Alongside Ship
- FOB: Free On Board
- CFR: Cost and Freight
- CIF: Cost Insurance and Freight