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EXPORT PROCESS OF RALLY AND RACE CARS' SPARE PARTS TO RUSSIA - CASE SET PROMOTION OY

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Teoriaosan päähahoina olivat vientiprosessiin liittyvät asiat: kauppasopimus, kaupankäynnin olosuhteet, vientikuljetukset, vientitullaus sekä vientidokumentit. Teoriaosan tiedot perustuivat kirjoista ja Internetistä löytyvään asiantuntevaan tietoon.

Tutkimuksen empirinen osa kuvaili vientiprosessin Suomesta Venäjälle vaihe vaiheelta, perustuen teoriaosassa esitettyihin asioihin ja soveltaen ne case-yrityksen tuotteisiin, ralli- ja kilpa-autojen varaosiin.

Opinnäytetyön aiheen valitsi case-yritys Set Promotion Oy. Yrityksen vähäinen tieto ja toiminnat viennistä Venäjälle olivat syitä tutkimuksen suorittamiselle. Tutkimus toteutettiin laadullisena tutkimuksena ja sen tulos, vientiprosessi yhdistäen varaosien ja Venäjään, annettiin valitsemaan parhaimmat vaihtoehdot vientiprosessin eri kohdien case-yritystä ajatellen.
The purpose of this thesis was to describe the export process of rally and race cars’ spare parts from Finland to Russia. The four main issues the study was to solve were: 1) What does the export process consist of when exporting from Finland to Russia, 2) What issues should be taken into account when exporting outside the EU, 3) Are there some other issues to deal with when exporting especially to Russia and 4) Are there some restrictions or requirements when exporting the spare parts. The research was conducted during the autumn and winter 2012.

The topics discussed in the theory part of the thesis included all issues involved in the export process: contract of sale, trading conditions, export shipments, export customs clearance and export documents. This part of the thesis was based on professional information found on books and Internet.

The empirical part of the thesis pictured the export process from Finland to Russia step-by-step, based on the issues from the theoretical part and adapting them to the case company’s products, rally and race cars’ spare parts.

The topic of this thesis was chosen by the case company Set Promotion Oy. The company’s slight knowledge and actions of exporting to Russia were the reasons to research this topic. The research was conducted as a qualitative research and as a result of the study, the export process, related to the spare parts and Russia, was given by choosing the best options for the case company.
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1 INTRODUCTION

Exporting to Russia has been such a challenging topic for Finnish companies for years. Russia's government's all the time changing restrictions and requirements for the exports have created difficulties for companies trying to access the Russian markets. Fortunately, I had a great opportunity to see these difficulties that a Finnish company faces and on ground of that I decided to write my thesis to concern exactly the exporting to Russia by relating the process to the case company's products.

When I was doing my practical training in the case company Set Promotion Oy I noticed that the problems with exporting to Russia were derived from the changed restrictions but also from the lack of experience. The company had not exported to Russia much and did not have a basic knowledge of all issues belonging to the process. The amount of Russian customers was growing all the time and was also a reason why it was important to study the topic.

By first collecting the basic information from the export process gave me an interest to bring up some valuable suggestions for the case company how they should accomplish the process of exporting rally and race cars' spare parts to Russia. Set Promotion Oy is a family business, founded in 2003. The company is located in Turku, Finland and its main branch is to import and deal Renault Sport rally and race cars and spare parts, as well as to offer professional technical support for its customers. (Website of Set Promotion Oy 2012.)
2 RESEARCH PROBLEMS AND THEORETICAL FRAMEWORK

2.1 Objectives of the Thesis

The main purpose and objective of this thesis is to give a description of an export process of rally and race cars' spare parts from Finland to Russia. The result will give suggestions for every step in the export process to the case company on how to adapt the issues in the theory part to their own products.

The thesis will be written from the Set Promotion Oy point of view and covers the following questions:
- What does the export process consist of when exporting from Finland to Russia?
  - What is a good contract?
  - What are the trade conditions?
    - packaging and marking
    - export shipments
    - forwarding and insurances
    - terms of payment
    - Incoterms 2010
    - customs formalities
  - What trade documents are needed?
- What issues should be taken into account when exporting outside the EU?
- Are there some other issues to deal with when exporting especially to Russia?
- Are there some restrictions or requirements when exporting the spare parts?
2.2 Theoretical Framework

![Theoretical Framework Diagram]

Figure 1. Theoretical Framework: The Export Process from Finland to Russia.

The arrow depicting the export process starts from the case company Set Promotion Oy. The products - rally and race cars’ spare parts - are to be sold and exported from Finland which belongs to the EU. The arrow ends to customers in Russia where the parts are meant to be sold.

The export process involves a wide range of different issues and functions that need to be taken into account. The arrow, representing the export process, goes through all the matters which will be dealt with in this thesis. The EU brings its own concern to the process by its regulations and restrictions, which is also why it is pictured in the framework.
Because the company does not have any permanent customers in Russia, the process description is common, in a general level. The idea is not to give any marketing services or getting customers from Russia. The thesis will only focus on the export process of the certain products to a certain country.

2.3 Research Methods

Research methods can be divided to qualitative and quantitative research. Both methods are widely used, differing from each other greatly. The basic idea which differs them from each other is that the qualitative research method is more explanatory where the researcher explains the researched issues, whereas the quantitative method is more likely testing hypothesis, offering number and statistical results. The qualitative research is a complete description in words, pictures and objectives. (Neill 2007.)

This thesis is a qualitative research. I will collect and analyze already existing data as a desk research and bring out the final result as an explanatory of the export process step-by-step, relating the process to the specified products and Russia. The most important sources in my thesis are books and Internet, by which the theory part will be conducted from. The background information comes from the case company itself.

3 RUSSIA'S ASSOCIATION TO THE WTO

Over the years Russia has been one of the most important trading partners to Finland, beside Sweden and Germany. In 2011 Finland exported all together 5.3 billion Euros to Russia with 9 % share of all exports, giving it third position after Sweden and Germany. Taking a look at the most important trading partners of Finland, Russia is in the first position, because of its first place in imports with the share of almost 19 per cent. The amount of exports from Finland to Russia grew over 13 per cent to the year 2010. (Ulkomaankauppa 2011 taskutilasto 2012, 11.)
These statistics are likely to be changed in the future. Russia became the member of the World Trade Organization (WTO) in August 2012 after many years of long negotiations. The association was expected to utilize the trade between Finland and Russia, derived from the diminishing of delays in the border and competitiveness of costs of foreign products in Russia when the tariffs reduce. The membership was also anticipated to better Finnish and other countries products' treatment in Russia, because the membership obliges the same treatment to any product, not depending where it is coming from. This would grow the demand of exports which would again grow the local markets in Russia. (CEMAT 2012.)

The downside in Russia's membership to the WTO is expected to be the hardening of competition in business life in Russia because of the easiness to enter the markets and cheapness of import products. It has also been said that due to the strong control of Russia's government, it might take a lot of time before the WTO membership will benefit countries globally. For example corruption and bureaucracy have given a bad reputation of the country in global markets and because of that the influences of the association might stay lower than expected or like said, it will take more time to see them happening. (Philips 2012 & Russia's entry to... 2012.)

From the Russians' point of view, the county's membership has received both, likable and unlikable opinions from its citizens. There has been protested against the association because of the thought that it would collapse Russian factories and millions of people would lose their jobs. The other side of the citizens, all though, sees the joining as a good thing by boosting the Russia's economy in the long run and giving more confidence to foreign investors. (Associated Press 2012.) It will be seen in the future how much the membership eases the exporting to Russia and will it change the export process in some sense.
4 CONTRACT OF SALE

4.1 A Request for Quotation and an Offer

The whole export process starts from a sales contract. When practicing international trade, making a contract is highly important with foreign customers. In order to avoid problem situations between the seller and buyer, the sales contract has to be made consummately, to please both parties. The contract should be made specifically and inclusively. All possible issues should be written down so there would be no room for misunderstandings and misinterpretations. (Melin 2011, 44.)

When a new customer contacts a seller for the first time, the first official contact sign is making a request for quotation to the seller. It can be either an oral or written one. Making the request for quotation does not bind the buyer nor oblige him to make a trade with the seller. (Melin 2011, 44.)

When the seller starts to make an offer, all possible requirements have to be taken into account. There might be some restrictions or prohibitions in both the home and import country. Some products might be restricted in terms of how much they can be imported to the country or there might be a need for special licenses in some cases. Besides the import and export restrictions in countries, the agreement of paying the target country’s import taxes is good to solve. Usually the seller and buyer pay their own countries’ taxes by themselves. When dealing with a new customer, the seller should also check the buyer’s credit report, because it has a straight impact on choosing the suitable payment term. Besides all issues mentioned above, making the offer requires also statements of pricing, selecting a transport mode and term of delivery. (Melin 2011, 44.)

The seller should be extra careful when making the offer, because after the buyer has received the offer, it binds the seller. The offer is also the first presentation of the seller’s knowhow to the buyer. To give a perfect image of the company, seller should give the answer to the request for quotation promptly. If the buyer accepts the offer,
the contract will be born. Due to that there is necessarily no need to have a sale contract separately. (Melin 2011, 44-45.)

4.2 Drafting a Contract and its Content

When the offer has been made and correspondingly the approvable order has been given as an answer, the contract is born. According to the Finnish law of legal acts and other regulations, parties of a trade have a right to agree on whatever they like. Legal praxis in countries varies, for example when taking a look at the binding of the offer. In Finland and in other Nordic countries like Sweden, Norway and Denmark, the offer and acceptation to it binds both parties when the opposite side has probed the other party’s expression. In Russia the legal norms of a foreign trade are almost in-line with the Finnish norms. One major difference although is that all contracts are competent only if they are written. It is also advisable that all contract terms will be written to the contract document. In Russia, the contract has been born when the maker of the offer receives the written announcement of acceptance of the offer. (Pehkonen 2000, 73-74.)

Usually there are no obligatory issues to agree on when making the contract like earlier mentioned. In some rare cases there is no need to even be a written contract, but when talking about international business, it is essential. In some countries, like Russia, a contract when making a business is required, otherwise the exporting does not work. Requirements have been filed in laws and there might even be very specific demands on how the contract should be made and what it should include. But generally the parties have a full mandate to agree on whatever they like. Nevertheless, in any contract there should be four basic agreements: quantity, type and quality of the goods, the time and mean of delivery, the price and the time and mean of payment. In addition parties should agree on which country's law they will apply when conflicts appear. (Shippey 2003, 28.)

The content of a sales contract may vary depending on the length of it, is it a one- or longtime. More specific and both parties pleased contract minimize risks occurring while trading with each other. A formal, written contract clearly indicates the rights,
responsibilities and remedies of all parties. More specific the contract is the better. In a simple contract following issues should be handled: *identification of parties, individualization of a subject for sale, contract price and its performance, delivery time, transportation and delivery of goods, indemnity, inspection rights, warranties, property of the goods, enactment of the contract and solving of arguments.* (Melin 2011, 47-48.)

*Identification of parties* is a self-evident issue to mention in a sales contract. Naturally both parties have to be named, who are involved in the trade. Also the addresses are good to be stated. (Shippey 2003, 30-31.) In the seller's point of view, it is recommended to verify the buyer's VAT-number so that there would not come any additional VAT obligations (Melin 2011, 47).

Another obvious issue to mention in a contract is the *individualization of the subject for sale* - description, quantity, quality, weight and spare parts of the good. In order to be able to identify the goods to be offer for sale, they have to be described clearly by model number shown in plans or drawings or in any other way. If there are a bigger number of items in question, they can be named and pictured in a detailed list attached. (Shippey 2003, 31-32.)

*Contract price and its performance* keeps inside issues such as payment term, costs and charges, pricing the goods and delay of the payment. All issues are good and almost obligatory to be stated in a contract. Generally the payment term is defined by the seller but in some cases parties can negotiate about it. In international business the currency of which the payment is made has to be marked clearly to the contract and also the instrument of the payment. If there exist some other costs and charges while doing the business, like transportation costs or taxes, they need to be subscribed to the contract; which party is to pay them and how much. (Shippey 2003, 32.)

*Transportation and delivery of goods* and also *the delivery time* goes all in the same category. The transportation and delivery of goods are usually determined by using an international term of delivery, such as Incoterms, Combiterms or RAFT. (Melin 2011, 47.) Incoterms 2010 -clauses will be reviewed later on in the chapter 5.1.
*Indemnity and inspection rights* are good to be mentioned in a sales contract. Parties have to negotiate on which situation the other party has a right to withdraw from commitments of the contract. Force majeure issues will be stated in this section about indemnities. Possible inspection rights during the production or in receiving situation and reclamations duties of the buyer need to be covered in the contract. *Warranty* for the good - its content, covered faults and time of warranty - have all been specified in the contract. Also the *property of good*, when it proceeds and possible retention, needs to be defined. (Melin 2011, 47-48.)

It should be stated in the sales contract when the *contract enacts*: when and how the enactment comes into effect and what the thinkable procedures are for it. When exporting there might be some permissions or certificates needed to be obtained in able to make the sale. Getting them usually takes time, so it is valid to agree about the enactment of the contract. (Melin 2011, 48.)

The last but not least issue to be agreed on in the sales contract is the *solving of arguments*. This is especially important in international business. If interpretations occur between the parties it is wise to determine before on what country's law will be used and where all arguments will be dealt. (Shippey 2003, 40.) When thinking about customers from Russia, the best situation for a Finnish company would be able to solve the problems in Finland using the Finnish legislation and more over use the arbitration instead of the principal trial court. This would be the safest solution. But to satisfy the other party, it would be better to use English as a language in the court so that both parties can understand what they are issuing about. (Suomalais-Venäläinen kauppakamari 2011, 240.)

All aforesaid issues should be mentioned in a good sales contract. It takes time to make a desirable contract, but it is something that both parties should pay attention to and get familiarized with accurately. The seller should draw attention to the buyer's financial reliability whereas the buyer should investigate the seller's actual possibilities to deliver the items in an agreed way. (Melin 2011, 48.)
5 TRADING CONDITIONS

5.1 Incoterms 2010

Incoterms rules have been drawn up by the business world itself for international business. Choosing the right term enhances logistics, decreases risks and brings cost savings for a company. Incoterms rules are known globally, making easier the shipment of goods, clarifying the seller's and buyer's liabilities and also partition of risks. With the clauses the seller and buyer agree on the delivery of goods; freight, insurance, customs clearance and transfer of risk. (Riskit paremmin hallintaan... 2010.)

Choosing the right Incoterms clause always starts from the sales manners, agreed delivery terms and needs of sales parties. The seller and buyer should always consider how they are ready to take care of the delivery of goods and after that ponder what Incoterms clause suits best for accomplishing the expectations and needs of both parties. The idea is to choose the right clause thinking about the sales practices and not on the contrary. (Website of ICC Finland 2012.)

Incoterms rules were originated in 1923 to provide guidance and rules to all trading partners while practicing international trade. Incoterms rules are mainly used between the seller and buyer to agree on the legal movement of goods under the buyer's liability. When writing a short, three letter rule to the contract, it gives a freedom not to write and repeat everything in all contract documents. (Fintra 2001, 45 & Website of ICC 2012).

The real function of an Incoterms clause is to determine that part of the contract which concerns the actual physical movement of the products from the seller to buyer. A clause keeps inside three liabilities - cost, commodity and action - which are divided in different ways between the seller and buyer, depending on a chosen term. Cost liability sets out the partition of costs which are indicated to the transfer of items. Action liability defines again how the seller has to place the goods to the buyer's usage and what actions the buyer has to make for receiving them. Commodity
liability on the other hand determines the place and point in time when the risk transfers. (Fintra 2001, 45.)

The International Chamber of Commerce has worked over 50 years with the Incoterms rules to standardize the contents of the clauses. The latest update for the rules happened on the 1st of January 2010 when the new Incoterms 2010 were taken into action. Before the updating there were 13 rules, but the new rules keep inside all together 11 clauses which are divided and presented in two distinct classes:

Rules for any mode or modes of transport
- **EXW** EX WORKS
- **FCA** FREE CARRIER
- **CPT** CARRIAGE PAID TO
- **CIP** CARRIAGE AND INSURANCE PAID TO
- **DAT** DELIVERED AT TERMINAL
- **DAP** DELIVERED AT PLACE
- **DDP** DELIVERED DUTY PAID

- Rules for sea and inland waterway transport
- **FAS** FREE ALONGSIDE SHIP
- **FOB** FREE ON BOARD
- **CFR** COST AND FREIGHT
- **CIF** COST INSURANCE AND FREIGHT

In the first class there are seven Incoterms 2010 rules that can be used whenever, regardless of the mode of transport is selected. The first class rules can be applied even if a ship is used for a part of a transport, even though the other class’s rules are used in sea and inland waterway transports only. (Website of ICC 2012.) All Incoterms 2010 rules have been defined very specifically and the proper list of them can be found attached in the end of the thesis.

In sales to Russia, it is advisable to use Incoterms 2010 clauses CPT, CIP, FCA or EXW. With these terms the seller does not have to worry about the taxation risks and the risk of delay is small. The EXW rule is not recommendable to use in international
business anyway. The reason comes from the content of the term. The seller ships the goods to the buyer when he places the goods to the buyer's availability in his own premises or at another named place. The clause gives minimum obligations for the seller. There exist risks in placing the goods because "the seller has no obligation to the buyer to load the goods, even though in practice the seller may be in a better position to do so" (International Chamber of Commerce 2010, 131). Export formalities might also cause problems in the use of EXW because the buyer is completely responsible of arranging the export clearance itself. The better term instead of the EXW would be the FCA. (Suomalais-Venäläinen kauppakamari 2009, 168-169 & International Chamber of Commerce 2010, 131.)

Buyers from Russia want usually use clauses DDP or DAP in order that the seller is responsible of delays and extra costs of deliveries. Forwarders do not usually agree on using these terms because of their likely impossible usage due to the value added tax. (Suomalais-Venäläinen kauppakamari 2009, 168-169.)

5.2 Term of Payment

When negotiating about the contract of sale, one of the most important parts of it is the term of payment. It is not a simple issue to discuss, because of its straight impact to the price of trade, just like the other conditions too. The term of sale is usually defined by the other party, who has the so called dictation power. This power is determined by the ongoing market conditions in the world. In international business, the competition of having the sale is much harder than in domestic trade and affordable term of payment has a great impact on that. (Hinkelman 2008, 10.)

When choosing the best payment method from the seller's point of view, the guarantee of having the payment of the sale is the most premier factor. The only secure method for this is the payment in advance which is, on the other hand, the worst method from the buyer's point of view. (Kananen 2009, 89-90.) The relationship between the seller and buyer has an effect on selection. “Also the nature of the merchandise, industry norms, the distance between buyer and seller, the potential for currency fluctuations, and political and economic stability in either or both countries”
(Hinkelman 2008, 10). All above-mentioned factors must be taken notice of before determining the payment method, which would please both parties.

The four basic payment terms which are used in international business are *open account*, *cash in advance*, *documentary credit* and *documentary collection*. *Payment on open account* works out in a way that after the seller has delivered the goods, the buyer pays the order with a check or wire payment. In exporting, the goods will be delivered to a foreign buyer at first, following the sending of an invoice. The time for the payment is usually either 30, 60 or 90 days. Payment on open account is the riskiest method of payment for the seller. From the buyer’s perspective it is very affordable, because the payment happens after the goods have been delivered, which gives the possibility to check the package and in the best situation, sell the parts onward before the accomplishment of the payment. (Kananen 2009, 59–60.)

Using the payment on open account in international business is not recommendable because of its high risk and difficulties with legal functions in quarrel situations. It can be used only in long, settled business relationships if must. Payment on open account secures the buyer completely where, on the contrary, the seller does not get any guaranty of the payment. There is no other choice for the seller than to start legal actions towards the buyer, if he does not get the payment. Due to that the seller should carefully think either to use the payment on open account or some other payment mode. (Kananen 2009, 60.)

The opposite mode to the payment on open account is *cash in advance*, in other words said a payment in advance. Here the risk transfers to the buyer in turn. In foreign trade payment in advance is advisable when the buyer is unknown to the seller and the seller does not count on to the buyer yet. Even though the name of the payment mode is payment in advance, it is not very usual to pay the whole invoice advanced: commonly the buyer pays only part of the total price. With the advanced payment the seller wants the buyer's commitment to the sale, especially in cases when dealing with subscription goods. Cash in advance is not typical payment mode in international business. Only exporters, whose products are unique or have a huge demand, can use this payment term. (Kananen 2009, 61 & Hinkelman 2008, 12.)
Documentary credit (D/C) is a way of payment where the buyer's bank gives a commitment to the seller of paying the invoice when the seller shows the specific documents defined in the D/C. Buyer's bank inherits the payment from the buyer and takes a risk in a case where the buyer is not able or willing to pay. This mode of payment is the most common one in international business, because it provides a high protection for both parties in trade. (Helppi & Paloheimo 2005, 115.)

The documentary collection, in other words cash against the payment, "is an order by the seller to his bank to collect payment from the buyer in exchange for the transfer of documents that enable the holder to take possessions of the goods" (Hinkelman 2008, 14). This payment mode is a secure one to the seller, because usually the buyer does not get the products to itself before paying them or committing to pay later by signing a draft. When comparing documentary collection to documentary credit, both methods focus on "the transfer of title documents to goods rather than on immediate transfer of the goods themselves" (Hinkelman 2008, 14). The difference comes with the functions with banks: In documentary credit banks guarantee the payment, but in the documentary collection they only act as collectors of payment. (Hinkelman 2008, 14.)

When exporting to Russia it is highly recommended to pay attention especially on choosing the right term of payment. The most simple and most commonly used payment method when dealing with Russians is the payment in advance, which removes the credit risk. Using documentary credit has also become increasingly popular nowadays. There may still be complications of using the D/C if a Russian bank does not want to take the risk on behalf of the Russian buyer. Although now that credit report history is used and customer relationships have been settled, the banks are more amenable in case of using the documentary credit as a payment term. (Suomalais-Venäläinen kauppakamari 2009, 195.)
6 EXPORT SHIPMENTS

6.1 Packing and Labeling

After the contract has been signed or in other words the sale has been approved, the next step in the export process is the shipment of the ordered goods, keeping inside the packing, labeling and shipment. These are the seller's final duties from him side to close the deal and should get enough attention also. Quite often packaging does not get enough focus and as a result, goods to be transported are damaged and broken. This leads to troubles for both parties, where earlier mentioned Incoterms 2010 clauses are in high position in the case of the party who is accountable of the product insurance. (Ramagopal 2006.)

In exporting, no matter which delivery mode is used, the package can be expected to occur some of the following hazards: shock (e.g. from dropping, side impacts), compression (from top loads), vibration, changes in atmospheric pressure (in aircraft holds), atmospheric pollution (sulphates in industrial environment, chlorides in marine environment), moisture, water (rain, high humidity, condensation, spillage), oxidation, extreme temperature (hot or cold) or electrostatic discharge. During the shipment the package is likely to be loaded and unloaded more than once, so there might be some hazards not only at the pick-up and delivery, but also at any intermediate transshipment point. This is why the main pitfalls are drops and impacts. (Department of Foreign Affairs and International Trade 2000, 4.)

There are many different kinds of packages and also at the same time many different ways to package. Requirements for a package come from the product itself, but also from transportation, consumers, legislative, environment and more. Nevertheless what kind of requirements there are, the idea and reasons for packaging do not change: package protects, stores, allows distribution, tells about the product, keeps inside the product, increases user-friendliness and sells. (Järvikääriäinen & Leppänen-Turkula 2002, 15.)
When choosing the packaging material there should be consider things such the strength and value of the item being packed, its weight and whether the package will be subjected to moisture or other adverse conditions. Plastic is with a light weight and low cost popular and the most frequently used material for packaging. It can be manufactured to different sizes and shapes, allowing companies to make them perfectly suited for their products. Compared to plastic, cardboard boxes are also in favor as a packaging material due to its cheapness. Nowadays boxes will be prepared from a corrugated fiberboard giving them more strength and stability. The most entertaining packaging material is the bubble wrap due to the possibility to pop the air bubbles. This material is very effective to protect fragile items without increasing the weight, and at the same time the cost of a package. Shrink wrap is a packaging material that makes a tight seal around the product keeping out the moisture. (Sullivan 2012.)

For the purpose of securing the handling, covering up the content, easing the identification and lastly meeting the regulations, the labeling of an export package is truly important. But still to remember not to advertising what is inside the package in order to not to promote theft. Markings should be at least apparent, durable and readable. There are a lot of markings needed in an export package, some additional (shipper's mark, country of origin, weight marking, number of packages and size of cases, international handling marks and port of entry) and some obligatory (cautionary markings and labels for hazardous materials). It is wisely recommended to make the markings in English so that everyone could understand. (Website of Export Logistics Guide 2012.)

6.2 International Transports

6.2.1 Choosing the Means of Transport

When shipping freight abroad, alternative transport modes are truck, rail, sea and air transport. Being able to export successfully, choosing the best mean of transport is crucial. The seller must guarantee the goods to be shipped will arrive on time and at
the right cost to the customer, which will affect to the selection of the best mean of transport. (Solusource.)

Goods transported from Finland to Russia happen either by train, truck, ship or to some extend by plane. According to the Finnish Customs statistics, last year exports to Russia were over 4.6 thousand tons, where 12 % of all transports happened by train, 48 % happened by truck and 40 % by sea. There were not any transports by plain. (Finnish Customs Transport Statistics 2011 2012.) Using the train as a transport mode between Finland and Russia is in high grace. The railroad track constitutes a backbone of Russian empire because of the long distances and seedy road network. Both countries have also the same rail gauge, which gives Finland a head start comparing to other countries. (Suomalais-Venäläinen kauppakamari 2011, 217-227.)

Selecting the appropriate transport mode depends on many subjects such as value and dimensions of the item, cost of transport, a destination country and distance, a delivery time and possible deadliness to it. If the size of the shipment is big, road or sea transport are only in question, because of the expensiveness of the air transport. The air transportation comes in to a question when the shipment should be quickly delivered. Using more than one transport mode in one transport is popular nowadays. To be able to make the right choice about the transport mode saves money and time in the long run. (Solusource.)

6.2.2 Transport Modes

Road freight is best for parcelled goods which is why it is the most commonly used transport mode nowadays. It is cost-effective and especially suitable for short distance shipments because of the fast delivery. Being able to follow the progress of the transportation and keep in touch with the driver are two benefits of road freights and definitely good advantages in comparison with other transport modes. However, there are some disadvantages in road freight: Shipments are physically vulnerable and there might be some delays in shipment due to the traffic, congestions or bad
weather. Using road freight is less safe than other transport alternatives. (Website of Nefab 2012.)

In domestic use or some cases in intercontinental use, rail freight is more affordable and environmentally friendly than road freight. When there is a need to deliver heavy goods, rail is the most suitable transport mode. Rail freight also offers other advantages such as reliability and capacity. It is one of the fastest modes of transport, yet timetables are not flexible and routes are limited. Rail gauge may differ between countries, which results in the need to unload and load the goods again in order to reach the destination. This of course delays the delivery. (Selin 2004, 191 & Website of Nefab 2012.)

The mode of transport that takes the most time is sea freight. It is usually used to transport large amounts of items at once. For example, for moving bulk shipments, sea transportation is the most suitable mode of transport. Disadvantages in sea freighting are long lead times with port duties and taxes, customs restrictions and inflexible timetables. (Website of Nefab 2012.)

Air freight is the most expensive mode of transport. Comparing to sea freight, where lead times are long, air freight works with very short ones. Besides the quickness, air freight is safe mode of transport. This is why it is used to transport priceless goods. However air freight does not suit for every good. Other disadvantages are airport taxes, flight delays and cancellations, environmental pollution and customs restrictions. Air freight is one of the riskiest modes of transportation. (Website of Nefab 2012.)

As stated before besides air, sea, road and rail freights, postal matter and courier services are also available transport modes in international business. The smallest deliveries are handled the easiest by using postal matters. The obvious advantage is the fast delivery whereas post systems divergence in different countries might cause problems. Comparing to postal matters, courier services are also used to deliver small packages and also documents rapidly to other countries. The difference between these two modes of transport is the customs clearance. The actual business idea of courier service is to deliver small goods that need to be declared. DHL is one
of the known couriers in the world. In Finland other well-known couriers are TNT and UPS. (Selin 2004, 191-192.)

6.3 Forwarding and Insurances

Like mentioned earlier exporters are always involved in transportation functions and therefore are also partially responsible for successful transportation of goods. If the exporter does not pay enough attention to these functions, it is likely that the goods do not arrive on time, are in poor condition or do not arrive at all. This is why in international business companies use freight forwarders to take care of the shipments and additionally also the insurance. (Weiss 2008, 133-134.)

A forwarder takes care of shipments and functions related to them in their own name against a fee. The size of forwarding varies a lot: it can be a single mission of customs clearance or a comprehensive execution of a sale. Services that forwarding companies offer are for example taking care of the transportation issued by the seller, warehousing and customs clearance, helping with the filling of transport documents, counseling with transport and distribution issues and also taking care of the product insurance in the client’s name. Using forwarding company's services is recommended if the exporter does have the experience of exporting or there are difficult products in question. It will save the seller's money and time. (Fintra 2001, 57 & Website of Suomen Kuljetusopas 2012.)

Like mentioned earlier forwarding companies can also take care of the cargo insurance. The insurance is vital especially in international business where can suddenly happen damages and losses to shipments while transporting. In Russia taking the cargo insurance is growing all the time, all though more to internal transports. The cargo insurance protects against financial losses of cargo, not depending on the chosen transport mode. The party who needs the cargo insurance is the one who has the liability of risks during the shipment. The content of the insurance can vary a lot: Some policies are very basic and list covered causes such as natural disasters whereas other policies are more comprehensive and cover damages due to load-
Cargo insurances can be divided into logistics liability insurance and commodity cargo insurance. Commodity cargo insurance is a property insurance which is targeted to the goods being dispatched. It covers suddenly and unpredictably happened damages during the transportation. The logistics liability insurance is meant for the forwarder or the conveyer who is liable of handling and transporting the shipment. It covers the damages of which the conveyer or forwarder is liable according to the law or contract. (Melin 2011, 181.)

The cargo insurance can be either onetime or stand for a year. If there are not a lot of transports where the cargo insurance is needed, it is more profitable to take the onetime insurance. The difference is only in the price and procedures: the onetime insurance is more expensive and insurance routines are more simplified. The basis for the insurance is that the insured insurers all export shipments he has a right or is required by the Incoterms clause. (Melin 2011, 185-186.)

7 EXPORT CUSTOMS CLEARANCE

Finland is part of the European Union and it has a great impact to the part of customs formalities in the export process. Being as a member state of the EU the country needs to use EU’s combined nomenclatures (CN), customs and customs tariff. This is derived from the shared external customs for the goods coming to the community. (Website of European Commission 2012.)

The Russian customs has a great impact in foreign trade. In most cases the interaction with the customs has experienced to be difficult because of the Russian government's bureaucratic actions to change the restrictions and requirements of the imports and exports from the country. The commands change from time to time which causes harm to traders. For instance, one day there might be a need for a certain document
and the other day the document is not needed. This is why the demanded proceedings and documents should be requested every time when trading with a Russian customer, at least at the time when the trade does not happen very often. (Klimahin 2012, 32.)

All products going outside the EU have to be declared, in other words, positioned under the export procedure, in order to check the preconditions of the export: are there some requirements, prohibitions or trade political functions related to the goods being exported. The person who is responsible of giving the export declaration is the exporter itself. He can authorize for example a forwarding company to give the declaration on behalf of himself. With the export declaration the export country oversees the restrictions and prohibitions of the exported goods, collects taxes and statistical material, prevents terrorism and most of all controls the goods exported outside the EU. (Website of Finnish Customs 2012 & Hirvonen ym. 2010.)

Since 2009 customs declarations for exports must have been lodged electronically with the Single Administrative Document (SAD). The SAD keeps inside all information needed to give a picture of what goods are going to be exported and how the shipment happens. The document is used globally for the trade outside the EU for detailing the goods and their movement. It encases the amount of products, the price, the customs code and information of the sender and receiver. All aforesaid issues will be classified by the goods’ commodity code. (Jyrinki 2011, 37-38 & Revenue.)

Companies usually use forwarders’ services while exporting at which time the filling of the SAD-document belongs to the forwarder. Export customs declaration is an essential document for the seller also in case of where it will be a proof of the goods shipped outside the EU and empowers the company the write the invoice without the value added tax. (Jyrinki 2011, 37.)

When filling out the SAD-document the exporter has to be contacted with the customs tariff. It is basically a product catalogue which shows the commodity codes and applicable customs. In the customs tariff there has been indicated product specific customs tax rates whereby the duty will be collected from every product when crossing the border. Finland’s, like the Russian customs' tariff, is based to the international
product description and coding system Harmonized System (HS). In contrast to the EU and Finland, in Russia there are mainly used 10 digits commodity codes whereas in Finland and in the EU the export commodity code is 8 digits long. When focusing to the rally and race cars' spare parts the four-number code for them is 8708. From that on the number splits very specifically according to what spare parts are in question. To the Single Administrative Document has to be marked the 8-digits numbers which practically means that in the same shipment there might be several different spare parts in which every one of them has their own commodity code. (Suomalais-Venäläinen kauppakamari 2009, 162-163 & Website of Finnish Customs 2012.)

There are three different export customs declaration procedures: simplified declaration, declarations under the local clearance procedure or incomplete declaration. Only the simplified declaration is one-stage. The other two are two-stages and need a permission. For example in Finland the declaration under the local clearance procedure is not in use at the moment. (Website of Finnish Customs 2012.)

The most common customs declaration from these three is the simplified declaration. The exporter announces the goods to the export procedure by showing the goods and giving all the documents and information at once with the SAD-document. When the customs authority has verified the prerequisites of the export and approved the customs declaration, the customs authority relieves the goods to the export procedure. The export office stores the first page of the SAD-document returning the third page with the markings of receiving to the exporter, but still without the verification markings of the physical export. The exporter itself has to make sure that the third page of the SAD-document, complete with the receiving marking of the export office, is delivered with the goods from the export office to the departure place. (Jyrinki 2011, 37-38 & Website of Finnish Customs 2012.)
8 EXPORT DOCUMENTS

8.1 Commercial Documents

According to the Ramagopal's book Export Import Procedures: Documentation and Logistics (2006) there are three objectives for commercial documents: "To effect physical transfer of goods from the exporter's place to the importer's place, to transfer property and title of goods from the exporter to the importer and realization of exporter proceeds from the exporter to the importer." (Ramagopal 2006.)

8.1.1 Proforma Invoice

A proforma invoice is a commercial document that is sent by the seller to the buyer to indicate the commitment of providing the goods at certain prices. The document is not an actual invoice and does not cause any obligations of payment. The proforma invoice is used in cases when there is a need to issue a sales document for goods that have not been supplied yet. Also for the customs the proforma invoice is often used for the declaration of the value of goods. (Website of E-conomic 2012.)

The proforma invoice must contain the following information:

- Full name and postal address of the shipper and the receiver with contact details
- Number and date of issue of the proforma invoice
- Description of goods in plain language and in sufficient detail
- Quantity of goods, price per unit, total value of every position
- Total value of goods
- Currency
- Country of origin of the goods
- The purpose for export (it is necessary to mention whether the shipment goes under the contract or free of charge)
- Payment terms
- Delivery terms
- Number and date of agreement
- Invoices should contain signature and stamp

(Website of DHL International UK 2012.)

8.1.2 Commercial Invoice

*Commercial invoice* is also a basic commercial document showing how much the buyer owes to the seller and for what. Information the invoice keeps inside has to be precise, because the document is in many cases a base for the other export documents. There are no specific rules or forms of how the document should look like, but countries might have their own requirements of the content or form. When exporting from Finland to Russia the language of the commercial invoice has to be either in Russian, English or German when showing them to the Russian Customs. For the Finnish Customs the language has to be either Finnish or English. (Weiss 2008, 170 & Jyrinki 2011, 38.)

The content of the invoice document follows mainly the content of the proforma invoice. Besides all issues mentioned above, the invoice should also include the following issues: net and total weight of the goods, the number of packages, price of transport and insurance and other costs. From the part of the transport, when exporting from Finland to Russia, the commercial invoice should point out the part which concerns the transport happening in Finland. This part will be counted to the customs value of goods in Russia. (Suomalais-Venäläinen kauppakamari 2009, 166.)

8.1.3 Packing List

Another commercial document is *a packing list* of the exported goods to indicate the sender and receiver, the number of packages in the shipment, the weight and dimensions of the package and also the items inside the package. The packing list gives the receiver a possibility to check whether he received all the items promised in the package or if something were missing. This document, like the earlier mentioned commercial invoice, does not have any particular form, but when exporting to Rus-
8.2 Transport Documents

The purpose of transport documents is to indicate that the goods, which are delivered to the named transporters, must be carried to a place of delivery. Following transport documents are being used at present in international trade.

8.2.1 International Waybills

Every transport mode has its own waybill, determined in the sales contract depending on the chosen transport mode. The waybill has to indicate the addresses, contact details and VAT-markings of the sender, receiver and forwarder, the content of the shipment, the number of scaffolds and the gross weight. The most important information in the waybill is the shipping address. (Suomalais-Venäläinen kauppakamari 2009, 167.)

Bill of Lading (B/L) is an international waybill which main function is to be a proof of transport contract and its content. It is also a commitment to transport the goods to a designated place, hand them over to a person who shows the B/L. The document is also used as a receipt by the chauffer to indicate the acceptation of the goods to be transported. B/L is used in sea transportation. The other four waybills, CMR, liner waybill (LWB), air waybill (AWB) and rail consignment note (CIM) are all documents handling same issues, but again, diverged by the transport mode. CMR is an international waybill used in truck-transportes. The document keeps inside the data about the shipment and works as a contract between the sender and forwarder. It is usually made in three copies. Liner waybill is used in sea transport, made as one copy given to the shipper who again gives it to the receiver when the goods have been shipped to the place of receiving. Air waybill is used in air freights, made in 12 copies. The document that is in question when using rail transport is the rail consignment note (CIM). It becomes valid when there is a stamp with a date from the
station of dispatch. (Website of Suomen Kuljetusopas 2012 & Website of EU-export 2012.)

8.2.2 TIR-Carnet

By the International Road Transport Union, the TIR-Carnet is pictured as "a customs transit document used to prove the existence of the international guarantee for duties and taxes for the goods transported under the TIR system, within the limit of the amounts specified by the contracting parties and under conditions stipulated in the TIR Convention". (Website of International Road Transport Union 2012.)

Replacing the cargo under the TIR-procedure, it eases the border crossing formalities since the cargo will be zipped in the departure customs and opened up not until in the destination place. In Finland the TIR document can be obtained from the Finnish Transport and Logistics (SKAL) organization. In Russia, the TIR-procedure is not recommended because of the Russian Customs’ fear against the customs fraud. This is why the zipped cargos will be opened and checked already in the border customs. (Suomalais-Venäläinen kauppakamari 2009, 167.)

8.3 Insurance Documents

There exists two different insurance documents used in international trade. Certificate of insurance is a necessary document when there is used the CIF Incoterm clause. It encloses the shipment, origin and destination places with the signature on behalf of the insurer or its agent. (Import Export Manufacturer 2012.)

The insurance policy, all though, is a contract document for the insured made by the insurance company. The insurance policy brings the indemnity cover into effect and works as a legal evidence of the insurance agreement. The policy also manifests the associated information if there are any. The fourth reason for the insurance policy is to set out the exact terms on which the indemnity cover has been provided. (Website of Business Dictionary 2012.)
8.4 Dispatch Documents

Forwarding instructions and dispatch advice are the two dispatch documents used in international business. Dispatch advice is a document with which the exporter or forwarder announces to the seller the information about the shipment, such as the number of bill of lading, time and place of arrival, the shipment size and the consignee. The dispatch advice can be send with an e-mail or fax or by phone. (Fintra 2006, 11-9.) Forwarding instructions is processed by the consignor. The document shows specific knowledge for the forwarder regarding the booking of a shipment and information completing transport documents. (Hinkelman & Mansergh 2002, 39.)

8.5 Special Documents

Certificate of origin is a document required by the import country to guarantee that the products are originally manufactured in a country which mentioned in the certificate. There are two insistences when the certificate of origin is needed: "1) Goods produced in a particular country are subjected to preferential tariff rates in the foreign market at the time of importation and 2) the goods produced in a particular country are banned for import in the foreign market" (Khushpat 2009, 264). In the case of Russia showing the certificate of origin to the customs is not obligatory, but when missing it the customs has a right to collect double customs duties. Due to that the Russian customer usually insists the document from the seller. Certificate of origin will be confirmed by the regional chamber of commerce. (Suomalais-Venäläinen kauppakamari 2009, 168.)

There also might be some other documents needed in international trade. Phytosanitary certificate is one of these. This document is handled by a third-party, for example a government authority. The document is required when shipping plants and plant products, indicating that the shipment is free from pests or disease. Quality certificate is also handled by a third party, certifying an admission of standards of the importing of the items shipped to the country. (Hinkelman & Mansergh 2002, 100-101.)
Beside the phytosanitary and quality certificate, *analysis certificate* is classified as another document used in international business. The document is required when the buyer requires an analysis of, for example, the quality. (Fintra 2006, 8-2.) When exporting rally and race cars’ spare parts from Finland to Russia, there is commonly no need for these three other documents mentioned above.

9 EXPORT PROCESS DESCRIPTION

9.1 Overview of the Export Process of Spare Parts

The purpose of this thesis is to function a detailed export process description of exporting the rally and race cars' spare parts to Russia. The phases of the process are presented step-by-step, providing instructions and proposals for executing the phases of the export. This chapter links the theoretical aspects of the export process to empirical information presented here. The process description covers the phases from the starting point when Set Promotion Oy gets a request for quotation from the Russian customer to the point where the customs clearance has been made successfully. The whole export process has been described by the following figure:

![Figure 2. The Export Process of the Spare Parts Step-By-Step.](image)

There are two options for Set Promotion Oy to carry out the export process: either to provide the parts available to the customer in the case company's facility or arranging the transportation of the goods straight to the customer. As a wish from the case
company, they wanted to find out the process as it goes when the customer itself comes to pick up the goods from the case company's premises. This is why the export process has been described by using the Incoterms 2010 clause FCA. Another possibility would have been using the Incoterms 2010 clause CIP, but that would have meant insurance responsibilities for Set Promotion Oy on behalf of the buyer. The meanings of the two Incoterms clauses have been set out later on and a detailed description of all Incoterms clauses can be found in the appendix 1.

9.2 Step 1 - General Transaction with the Customer

![Diagram](image)

Figure 3. First Transactions between the Seller and Buyer.

The first step in the export process is the general transaction with the new customer. It usually starts from the point where the customer sends the request for quotation (RFQ) by e-mail. Commonly the whole interaction happens by e-mail because of the language and time differences. It is also a secure way for the case company because then all information exchanged will leave in secure. In most cases when the customer sends the RFQ there is not more information than just a request of certain spare parts and the buyer's name. It is easy for the customer to send the RFQ because it does not oblige him to buy the products. But when Set Promotion Oy sends back the quotation, it will bind them to sell the parts in those terms that have been written to the quotation. Therefore the case company should pay extra careful when making it.

When exporting rally and race cars’ spare parts to Russia, there are no restrictions in terms of how much they can be imported to the country or any licenses needed. So
the case company does not have to take care of those when creating the offer. But issues they at least have to state in the offer are pricing, selected transport mode, term of delivery and term of payment. Payment term in this case is the advanced payment which affects widely to the whole export process. Using the payment in advance as a payment term will be discussed more specifically later on.

After sending the quotation to the customer, the customer will accept it by sending the order to Set Promotion Oy. The case company will confirm the order by sending the confirmation of the order to the customer, following the making of the contract. On ground of the contract Set Promotion Oy can compose the proforma invoice for the payment. The order confirmation by the case company should happen by e-mail rather than by phone. Then there would leave a written confirmation in secure that can be used as an advantage in case if there come some problems with the order.

9.3 Step 2 - Contract and Sales Conditions

After the case company has sent the order confirmation to the Russian customer, they can start to make the contract and following the proforma invoice. Exporting to Russia differs from exporting to other countries in a way that there is unquestionably needed a written sales contract. Usually if the buyer accepts the offer it can work as a contract and there is no need to make a separate one. But when dealing with Russians the contract is obligatory. Otherwise the exporting cannot happen.

9.3.1 Content of the Contract

The sales contract between Set Promotion Oy and the Russian customer does not have any obligatory form or issues that need to be included there. But more specific the contract is, risks will minimize and both parties know their responsibilities in the trade.

In the contract there has to be the general information of both parties: names, addresses and phone numbers. If the buyer’s invoicing and delivery address are different, both of them have to be market to the contract. The ordered spare parts should be
specifically listed to the contract: what spare parts are in question, their product numbers and names, quantity and possibly the quality and weight. At this point it would be a good to put to the contract also the CN-codes of the spare parts. The Russian customer has to make preparations from the import clearance before the shipment and will need the CN-codes for that. When knowing the CN-codes for the parts, the customer can likewise calculate the amount of import duties needed to pay of the ordered parts. If there is a long list of parts ordered by the customer, the list of the goods can be put as an attachment to the contract. Then the contract would be clearer and the parts would be easier to catalogue.

Besides the contract price, there has to be a unit price for every spare part and possible discount mentioned. Also if there are transportation costs or some other costs already known, they have to be marked to the contract. But in this case when there is used the Incoterms clause FCA the customer will arrange the transport, so there are not any transportation costs needed to put to the contract.

Delivery terms will be discussed by the chosen Incoterms 2010 clause. Like mentioned earlier there are the two options for Set Promotion Oy to arrange the products to meet the customer: either the case company ships the goods straight to the customer’s facility or the customer will collect the goods from the seller's place. In the first case the most suitable Incoterms clause would have been the CIP. In the latter case it would be the FCA, because like mentioned in the theory part of the thesis, using the EXW in international business is not recommendable.

Using CIP would mean that Set Promotion Oy would clear the goods for export and deliver them to a named place, by using a transportation company's services. The case company would be responsible for the transportation costs associated with delivery. Also procuring the cargo insurance would be in the case company’s concern - on behalf of the buyer of course, because the risk is already on the Russian buyer's concern.

But as a wish from Set Promotion Oy they would prefer that the Russian customer would collect the parts from the case company's premises. Then the appropriate Incoterms 2010 clause would be the FCA (free carrier...) and marked to the contract as
follows: FCA Turku. It means that the case company releases the ordered parts to the forwarder or to some other person named by the buyer in the company's premises or in some other defined place. The buyer arranges the transport and pays all the costs. Important issue to remember is that the parties should clarify specifically the delivery point, because the risk transfers to the Russian buyer in that place. So for example if the parts will be released to the buyer in the case company’s premises, the contract should clearly indicate the delivery place to be the case company's premises’ address. Although the FCA Incoterms clause obliges Set Promotion Oy to make the export clearance, it does not require them to make the import clearance.

The cargo insurance is not obligatory when using the FCA term. Like mentioned earlier, the risk of the goods to be damaged is transferred to the buyer at the point of delivery. After the loading the seller does not have any risks of the goods. So the critical point here is the loading or rather the point when the driver signs the waybill. If the buyer does not take the insurance he has taken the risk knowingly. The cargo insurance will be reviewed more deeply later on. The contract should also state the time and mean of payment. When Set Promotion Oy exports the spare parts outside Finland, they often use the advanced payment. And when dealing with Russians it is highly recommendable in order to avoid the problems with the payment. Using the advanced payment is the most secure payment method in this case: The case company does not take any risk of not getting the payment before sending the parts. The time of the payment does not have to be stated in the contract in this case, because it will happen before the shipment. Instead of that the contract should specify, for example, what the delivery time after the payment is and what the time for refund is if the seller cannot ship the parts.

Aforementioned issues are related to payment issues, but the contract should also set out matters such as cancellation of the contract and applicable law in conflict situations. In attached there is the International Chamber of Commerce’s model of an international sales contract. The model contract has been modified for the case company when exporting to Russia.
9.3.2 Payment in Advance

Before being able to go to the next step of the export process, preparing the shipment, the Russian customer has to confirm his payment of the ordered parts. After the company has made the contract, they will send it to the customer for a signature and also for the acceptance. If the customer is pleased with the contract and has signed it, the company can send the proforma invoice for the customer for the payment. The content of the proforma invoice follows mainly the contract. The language has to be either in English or Russian and in addition to the normal specific details, the proforma invoice has to notify also the date and number of it. Like the contract, the proforma invoice should also include the CN-codes for the parts. Before sending the document to the customer, the case company has to stamp and sing it. Preferably the color of the signature should be blue and the shape of the stamp round.

After the Russian customer has confirmed the payment by sending the copy of the bank receipt rather with an e-mail and the case company has checked their bank account if the payment has received, the next step in the export process can be executed.

9.4 Step 3 - Preparing the Shipment

The FCA Incoterms clause sets out that the transportation happens on behalf of the buyer. So in the case where Set Promotion Oy exports the spare parts to Russia, the shipment is issued by the Russian customer. The issues that the case company has to look after in the shipment procedure are the packing of the goods and positioning them to the buyer's availability in the case company's facility. After the money has shown up in the case company's bank account, they should announce to the buyer that the parts are available for the pickup.

The following chapters will concern the issues of the cargo insurance and the packing and labeling of the goods.
9.4.1 Cargo Insurance

Like previously mentioned, the FCA Incoterms clause does not imply any obligations for taking the cargo insurance. The risk transfers to the Russian buyer on the loading point of the shipment, when the parts have been loaded to the truck. The buyer will bear all the risks associated with the cargo after the loading, and is his concern will he take the insurance or not. Although, the loading belongs to Set Promotion Oy, and if in that place there occur damages, for example the packages drop down and the parts will break up, the case company is obliged to replace them.

When customers from Russia want to order spare parts the amounts in question are usually quite big. Otherwise the other costs of the procedure would come much bigger than the actual price of the spare parts. It would not be cost-effective to buy small amounts and arrange many transports for them. Also the interaction with the customs is not usually very fluent. These are the reasons why customers want to buy bigger amounts at once.

Associating to what is mentioned above, the cargo insurance would be a good thing to take, at least when the ordered parts are very valuable. But again, it is under the Russian customer’s concern.

9.4.2 Packing the Goods

As a responsible party during the shipment of the goods, Set Promotion Oy has to make sure that the goods ordered are properly packed. Therefore the case company has to notify any requirements regarding appropriate packing. When there is in question the spare parts, there are no requirements for the packing, for instance from the legislation.

Some of the rally and race cars’ spare parts are very vulnerable, so the packing has to get the same attention than the other parts of the export procedure also. The main idea for packing the spare parts is that the package needs to protect the parts and also indicate what is inside. The evidence of what is inside the package happens with the
packing list. It is one of the documents the case company has to provide in the export process. The packing list shows the sender and receiver, the weight and dimensions of the package and also the items inside the package. When the buyer receives the package, he can check whether he received all the items promised in the package or were something missing. The packing list has to be either in English or Russian in this case.

When labeling the package, there are no required labels needed to put to the package when exporting the spare parts. But when exporting for example widescreens, it is worth of putting there the fragile -marks, so the forwarder knows that the content of the package is very vulnerable and needs to be handled carefully.

9.5 Step 4 - Shipment

After taking the cargo insurance and packing the goods, the actual shipment takes place. The goods are to be shipped from Turku, Finland to Russia. The delivery time for the shipment depends on the customer or the forwarder named by the customer.

Now when the Russian customer arranges the transportation, Set Promotion Oy does not have to worry than only for signing the waybill. The transportation company forms the waybill, but the case company has to inspect the correctness of the document before signing it. The document which the case company should make for the customer is the certificate of origin. It is not an obligatory document needed when exporting to Russia, but if the document is missing the Russian customs has a right to carry out double duties from the imported goods. Duties will be paid by the Russian customer which is the reason why the customer might want the document. As a clearance of the origin of the goods, the document can be either a certificate of origin document confirmed by the chamber of commerce, exporter's own certificate created to his own document or a sales contract, which includes the indication of explanation of the origin of goods. All abovementioned papers can be a proof of the origin, but in most cases Russian customers only accept the document from the chamber of commerce. It is suggested for the case company to use the Finnish Chamber of Commerce's certificate of origin document. This document is presented in the appendix 3.
After loading the goods to the truck, the commercial invoice will be created based on the packing list, which has been fastened to the package already. Also the certificate of origin will be dealt after the loading. The certificate document and also the invoice can be given to the driver when he gets the goods. The invoice has to be made in a way that it works also with the export clearance. The content of the invoice is quietly the same than in the proforma invoice. As it was said earlier, the invoice will be made on ground of the packing list which is why the invoice also includes issues such as the net and total weight of the goods, the number of packages and the price of transport and insurance – issues that the proforma invoice did not keep inside. The language of the commercial invoice has to be either in Russian, English or German when showing them to the Russian Customs. For the Finnish Customs the language has to be either in Finnish or English.

9.6 Step 5 - Export Customs Clearance

Second-to-last step in the export process and at the same time sometimes the most difficult part, the export customs clearance, follows after the actual shipment has taken into place. Set Promotion Oy has to compose the export clearance whereas the Russian customer makes the import clearance, both derived from the selected Incoterm clause. For the case company there are two ways to execute the export clearance: either they make it by themselves or use a forwarding company's service. In this case, I chose that the case company makes the clearance itself in order to find out how the procedure goes and realize that after few times of making it, the export clearance is not that difficult to make as it seems.

The export clearance will be made with the SAD-document. The example of the document is presented in the appendix 4, which is from the European Union's website. In order to succeed the customs clearance in the border, the case company has to have an identifier number (ID). In order to get the ID, Set Promotion Oy has to register to the Finnish customs. "A registered user can view and print out the Export Accompanying Document (EAD) and the decision on release, save a declaration as a draft and choose a previous declaration as a template for a new one" (Website of
Finnish Customs 2012). Registration is free and makes the customs clearance easier next time. The registration document can be found in the appendix 5 and needs to be delivered to the following address:

Turun tulli
Sähköinen tullauskeskus, Lupahallinto
PL 386, 20101 TURKU

When filling out the SAD from the Finnish Customs websites, the case company has to know the commodity codes for the spare parts. The codes can be found from the European Commission's websites. The spare parts are included in the Harmonized System (HS) chapter 87 "vehicles other than railway or tramway rolling stock, and parts and accessories thereof" under the HS heading 8708 "parts and accessories of the motor vehicles of headings 8701 to 8705" (Website of the Finnish Customs 2012). After that the parts have been classified very specifically and detailed.

When the case company registers to the Finnish customs, they can print out the EAD and give it to the driver when he gets the goods from the case company's premises. The EAD has to be shown to the customs from the goods going out the EU in the exit place. The procedure of the export clearance goes in the following way:

1. Set Promotion Oy sends the customs clearance to the Finnish Customs in good time before the transportation.
2. Customs' information system sends back an answer message, which is either an approval or a rejection.
3. In a normal situation, where the notification is accurate, there comes also the release message where in the appendix are the release determination and the EAD. The EAD keeps inside the MRN-reference, which individualizes the customs clearance to the customs information system.
4. The EAD has to be presented to the customs authority together with the goods being exported.
5. The authority will confirm the exit of the goods to the information system.
6. Set Promotion Oy gets the exit confirmed release determination, by which the case company can indicate the export being a non-value added tax.

(Website of Finnish Customs 2012.)
In order to replace the cargo under the TIR-procedure, the driver has to go to a customs office to get the signets to the truck. In the case of Set Promotion Oy, the part cargo is usually in question, meaning that the truck will not be fully loaded. Taking the signets to the truck belongs to the transportation company and Set Promotion Oy does not have to worry about them. The driver who gets the goods from Finland to Russia has to have the following documents when he crosses the border: TIR Carnet, international waybill, commercial invoice, packing list, certificate of origin and EAD. With these documents the truck goes to the customs due to the TIR Carnet. And like mentioned earlier, after the truck has crossed the border, the customs information system gets the announcement that the goods have exited from the EU. With that electronic announcement the case company can prove the sale being non-VAT international sale.

9.7 Step 6 - Finishing the Sale

Being a good seller, Set Promotion Oy should contact the customer after the sale in short period of time. The company should ask about the parts sold to the customer, were they appropriate and worked well and did the shipment go well. This would give a pleasurable and enjoyable feeling to the customer that the case company thinks about the sale afterwards and takes care of the fact that everything went well. It also gives a better picture of the case company and the buyer might get a feeling that Set Promotion Oy is worth of trust and parts can be ordered more from there in the future. Even though it does not sound an important thing to do and lots of companies do not contact the customer after the sale has conducted, it is an idea the case company should point out. It does not take than only few minutes to create the e-mail and send it to the customer. It is a small thing, but has a big effect.
10 CONCLUSION AND RECOMMENDATIONS

10.1 Conclusions from the Empirical Part

For the purpose of completing the export process successfully, Set Promotion Oy should make some certain preparations beforehand. Finding out the CN-codes for the spare parts and resolving the time of getting the certificate of origin from the local chamber of commerce are the ones the case company has to perform. Also acquiring the round stamp is crucial, although it does not sound so important.

When planning the exporting the spare parts to a new customer to Russia, the first issue Set Promotion Oy should pay attention in the actual export process is the importance of the sales contract. With a new customer I suggest that the case company agrees and writes down to the contract all possible issues that might cause harms later on if have not agreed on. The contract should get a lot of attention when drawing it up. The base for the contract can be created in advance and modified for every customer separately at the trading point. The contract can be a critical point in the export process if it will not be created with time and thought.

Another main point in the export process is the shipment. Although Set Promotion Oy is responsible only for packing and loading the goods to the truck, the case company should still pay attention to them and also consider the customer’s plans concerning the transportation of the goods from Turku to the customer’s premises in Russia. In addition, Set Promotion Oy should consider whether the Incoterms 2010 clause FCA would be the best alternative for them. Or whether there would be some other clause that would be more advantageous. It is a not impossibility for the case company to arrange the transportation to Russia. It could be easily handled with the help of a forwarding company. Of course it involves a lot more time for the case company to the whole process, but at that point there might be more customers when knowing that the transport can be handled by the case company.

Relating to what mentioned above, another main point is finding a suitable freight forwarder who could provide comprehensive transport services for the case compa-
ny. For potential future exports this would be a crucial point in order to attract more customers. Before the actual exports with the help of the forwarder, the case company should review various freight forwarding companies to find the one that suits best in the case company needs. DHL could be a potential freight forwarder because of the already existing contracts and interactions with them. Using a freight forwarder could enhance also the fast deliveries to the customers.

Finally it is essential to point out the difficulty of the customs formalities. Outsourcing this step of the export process to a specialized forwarding agent could be a great help, but would increase the costs of the process. Set Promotion Oy can accomplish the customs clearance by itself easily by registering to the Finnish customs. After all, making the clearance is not that difficult and the case company can be aware of all issues happening in the export process, and not through a third party. Wishing that this step in the export process would become easier, resulting from Russia’s membership to the World Trade Organization. Like stated before, Russian government can be unpredictable in the sense of all the time changing restrictions and requirements for the imports and exports. For example in the future, there might come up new documents required when exporting to the country. For the traders it is difficult to keep in touch with this kind of changes. But hopefully Russia’s association to the WTO diminishes most of this type of difficulties.

In general, Russia is very potential target country for Set Promotion Oy. After few years of Russia’s association to WTO, trade with the country can be amazingly easy. The interest towards the rally and race cars’ spare parts hopefully grows all the time. Still the case company should get more permanent customers from there. The way Set Promotion Oy is able to market its products to Russian customers will definitely have an important role on this.

10.2 Thesis Process Description

The idea for this thesis came into my mind when I was doing my six months practical training in the case company Set Promotion Oy. The whole process of making the thesis started in September 2011 by planning the thesis and making the project plan. Before writing the plan I discussed with the case company about the topic, what kind
of ideas they had about the issue of studying would benefit them the most. The topic of writing the export process of the spare parts to Russia came into our mind quite fast and in concord we decided that would be the topic to research. The reason why doing the process concerning Russia was because the amount of Russian customers was growing all the time and the company had not exported there much. The export process to Russia is differs widely compared to other countries so that is why it was worth studying.

After the project plan was accepted by the teacher and the case company, I started to gather the information about the subject and write the theory part. The starting point was to find out what issues belonged to the export process in order to know what I was supposed to search and all in all how much issues there were related to the process. The biggest problem when scheming the theory part was the fact how was I going to narrow it to fit the form of a thesis in a university of applied sciences. There were so much issues belonging to the export process that the most difficult thing was to decide what issues I was going to emphasize and what issues I could leave out. But with the help of the detailed project plan, it was easier to start to write the theory part.

I searched the theory from different sources, mainly from Internet and books. The following three books were the best sources of my theoretical part of the thesis:


Writing the theory part took a lot more time than the empirical part. The whole writing process took time about four months after conducting the project plan. The time table for finishing the thesis was very tight because I wanted to graduate on January 2013. The whole process went very fast. I held my first thesis seminar in September, where I presented the project plan of the thesis. After the seminar I started to write the theory part of the thesis. It took time about one month to create the base, the theo-
retical part, for writing the empirical. In the end of November I kept my second thesis seminar where I performed the theoretical part of the thesis. After that there was not much time to compose the empirical part of the thesis. With a very tight schedule I managed to write the empirical part finished on the second week of December, handing the finished thesis over for evaluation in the same week.

10.3 Recommendations for Further Studies

During the thesis writing process I found out that following topics related to the export process could be dealt with in the future studies.

*New customers from Russia*

The one thing which came into my mind during the writing was the case company’s lack of customers from Russia. Because the export process of spare parts was in general level, in the future one topic to research could be acquiring new customers from Russia. How much potential customers there would be thinking about the race and rally cars’ spare parts and how to gain them to buy the products from the case company.

*Effects of Russia’s membership to the WTO*

At the moment it is difficult to say yet what kind of effects Russia’s membership to the World Trade Organization might cause when exporting there. In the future, it might be interesting to search what kind of changes the association occurs, for example does the process differ from nowadays and has it become easier.

*Marketing the Spare Parts to Russia*

Set Promotion Oy should get more permanent customers from Russia in order to secure the exporting there. Related to the first recommendation of the new customers from Russia, it would be a great issue to research how the company should market their products in Russia in order to get more customers.
11 FINAL WORDS

The starting point in this thesis was to generate an export process description for the case company Set Promotion Oy. The purpose was to provide Set Promotion Oy with a basic understanding of exporting to Russia, as the case company wanted to know about the operations involved in the process.

While doing the thesis I was able to use the knowledge I gained from my studies in Satakunta University of Applied Sciences. I was able to deepen my knowledge about exporting to Russia widely. The study gave me valuable information of the difficulties not only in the steps of the export process but also with Russia: how much more challenging it is to trade with Russians. The opportunity to see these troubles gave me more interest to solve the difficulties in the process and help the case company to find solutions for them.

One thing that I would have done differently in the thesis writing process was the usage of time of completing the thesis. It took a lot of strength to write the thesis at the same while working full time. But on the contrary, I do not think that the result of the thesis would have been different if I had used more time for completing it. Furthermore I am content of the result of the thesis, which I find useful for the case company. I reached all the objectives and succeeded of giving suggestions how to complete the export process successfully. My supervisor was a crucial support, by being able to complete her mandatory issues for this thesis in such a fast time and also giving me plenty of essential advices how to create a perfect thesis.

Now after I have finished my thesis, it is interesting to read news about Russia, how it is doing business with other countries, the country’s association to WTO and such. It is intriguing to relate that kind of news to this thesis, think of how they would affect to the export process. The topic of exporting to Russia is going to be important for Finland in the future. It is important for the country to be able to continue the trade with Russia, in order to be able to keep the economy in a healthy base and guarantee of having the resources the country needs.
REFERENCES


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http://exporters-sources.com/insurance-certificate/


http://publications.theseus.fi/bitstream/handle/10024/21297/Jyrinki_Joonas.pdf?sequence=1


Website of Suomen Kuljetusopas. Referred 15.10.2012.
http://www.kuljetusopas.com/

http://www.transportinsurance.org/

Incoterms 2010

RULES FOR ANY MODE OF TRANSPORT:

**Ex Works (EXW):** The seller fulfills his obligations by having the goods available for the buyer to pick up at his premises or another named place (i.e. factory, warehouse, etc.). Buyer bears all risk and costs starting when he picks up the products at the seller’s location until the products are delivered to his location. Seller has no obligation to load the goods or clear them for export.

**Free Carrier (FCA):** The seller delivers the goods export cleared to the carrier stipulated by the buyer or another party authorized to pick up goods at the seller’s premises or another named place. Buyer assumes all risks and costs associated with delivery of goods to final destination including transportation after delivery to carrier and any customs fees to import the product into a foreign country.

**Carriage Paid To (CPT):** Seller clears the goods for export and delivers them to the carrier or another person stipulated by the seller at a named place of shipment. Seller is responsible for the transportation costs associated with delivering goods to the named place of destination but is not responsible for procuring insurance.

**Carriage and Insurance Paid To (CIP):** Seller clears the goods for export and delivers them to the carrier or another person stipulated by the seller at a named place of shipment. Seller is responsible for the transportation costs associated with delivering goods and procuring minimum insurance coverage to the named place of destination.

**Delivered at Terminal (DAT):** Seller clears the goods for export and bears all risks and costs associated with delivering the goods and unloading them at the terminal at the named port or place of destination. Buyer is responsible for all costs and risks from this point forward including clearing the goods for import at the named country of destination.
Delivered at Place (DAP): Seller clears the goods for export and bears all risks and costs associated with delivering the goods to the named place of destination not unloaded. Buyer is responsible for all costs and risks associated with unloading the goods and clearing customs to import the goods into the named country of destination.

Delivered Duty Paid (DDP): Seller bears all risks and costs associated with delivering the goods to the named place of destination ready for unloading and cleared for import.

RULES FOR SEA AND INLAND WATERWAY TRANSPORT:

Free Alongside Ship (FAS): Seller clears the goods for export and delivers them when they are placed alongside the vessel at the named port of shipment. Buyer assumes all risks/costs for goods from this point forward.

Free on Board (FOB): Seller clears the goods for export and delivers them when they are onboard the vessel at the named port of shipment. Buyer assumes all risks/cost for goods from this moment forward.

Cost and Freight (CFR): Seller clears the goods for export and delivers them when they are onboard the vessel at the port of shipment. Seller bears the cost of freight to the named port of destination. Buyer assumes all risks for goods from the time goods have been delivered on board the vessel at the port of shipment.

Cost, Insurance, and Freight (CIF): Seller clears the goods for export and delivers them when they are onboard the vessel at the port of shipment. Seller bears the cost of freight and insurance to the named port of destination. Seller’s insurance requirement is only for minimum cover. Buyer is responsible for all costs associated with unloading the goods at the named port of destination and clearing goods for import. Risk passes from seller to buyer once the goods are onboard the vessel at the port of shipment. (Website of Export.gov 2012.)
# International Sale Contract

**Contract Number**

**Contract Date**

## 1. Specific Conditions

<table>
<thead>
<tr>
<th>SELLER name and address</th>
<th>CONTACT PERSON name and address</th>
<th>BUYER name and address</th>
<th>CONTACT PERSON name and address</th>
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</tbody>
</table>

SELLER 

signature 

__________________________ 

place _______ date ______

BUYER 

signature 

__________________________ 

place _______ date ______

## 2. Goods Sold

**Description of the Goods**

________________________________________________________________________________________

If there is insufficient space, parties may use an annex

## 3. Contract Price

Currency: ______________________

amount in numbers: ______________ amount in letters: ______________________

## 4. Delivery Terms

Used term (according to Incoterms 2010):

FCA Free Carrier named place: TURKU
CARRIER (where applicable)

NAME AND ADDRESS       CONTACT PERSON


5. TIME OF DELIVERY

The date or period at which or within which Set Promotion must perform the delivery obligations


6. INSPECTION OF THE GOODS BY BUYER

___ Before shipment  place of inspection: ______________________

___ Other: ______________________

7. RETENTION OF TITLE

___ YES     ___ NO

8. PAYMENT CONDITIONS

Used payment term:

Payment in advance

Date: _______     Total price _______ % of the price

9. DOCUMENTS

Documents to be provided by Set Promotion Oy:

___ Transport documents: type of transport document required ____________
___ Commercial Invoice ___ Certificate of origin
___ Packing list ___ Certificate of inspection
___ Insurance document ___ Other: ____________

10. CANCELLATION DATE

If the goods are not delivered for any reason whatsoever (including force majeure) by (date) _______ the Buyer will be entitled to CANCEL THE CONTRACT IMMEDIATELY BY NOTIFICATION TO THE SELLER.

11. APPLICABLE LAW

This sales contract is governed by the domestic law of FINLAND.
APPENDIX 3

1. Lahettaja (nimi tai toiminn ja täydellinen osoite)

2. Vastaanottaja (nimi tai toiminn ja täydellinen osoite, mikäli tiedossa, tai merkintä “mahtasimoi”)

3. Alkuperäinen (Euroopan yhteisö tai kyseinen alkuperäinen)

4. Kujuutta koskeva tiedot (merkintä ei paikollinen)

5. Huomautus

6. Tavaroiden, joiden mo. - Kollektiimarke, numerot, lukumäärit ja joi. - Tavaraboutus
   (Palkkaamallin tavaroiden ilmoittamukseen ja tavan tarkistamiseen)

7. Paljous (omina-isäisä tai nettomin. tai
   muu määräkätkö)

8. Allekirjoituksen

   - HAKEE alkuperätoistua, jolla osoiteaan, että sarakessa 3 ilmoitettuna on edellä mainitun tavaroiden alkuperämaa.
   
   - ILMOITTA, että tämän hakemuksen sisältä mät tiedot sekä illetettävä vastaanottaja ja tavaroiden tila ja
   - tilinnostolle toimituksesta alla mainitut tiedot
   
   - SITOUTUU ha vitaminoinnien tila ja määräkätkö, että myös tämän tilinotollisuuden estämiseksi mahdolliset vaaditavat lisäedot ja
   - liitteet tai

9. Hakija (jos muu kuin lahettaja)

   - Palkka ja paivämäärä

   Hakijan allekirjoitus

   (Vaihtoehtoinen allekirjoitus on saatavilla paikkoja)
# APPENDIX 5

## TULLI

**ILMOITTAUTUMINEN TULLIN REKISTERÖIDYKSI VIENTIASIAKKAaksi**

### A. YRITYSTÄ KOSKEVAT TIEDOT

<table>
<thead>
<tr>
<th>Yrityksen nimi - päätoimipaikka</th>
<th>Y-tunnus, jatko-osa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Päätoimipaikan katsoosote</td>
<td></td>
</tr>
<tr>
<td>Päätoimipaikan postinumero ja -toimipaikka</td>
<td></td>
</tr>
</tbody>
</table>

### B. YRITYKSEN TOIMIPISTEEN TIEDOT

<table>
<thead>
<tr>
<th>Yrityksen toimipiste (esim. Vasaen kauppa, Lahden varaot)</th>
<th>Jatko-osa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomipisteen katsoosite</td>
<td></td>
</tr>
<tr>
<td>Tomipisteen postinumero ja -toimipaikka</td>
<td></td>
</tr>
</tbody>
</table>

### C. KÄYTETTÄVÄ EDUSTUSMUOTO

<table>
<thead>
<tr>
<th>Käytettävä edustusmuoto (Vain edustajana toimiva yritys täyttää)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suora edustus □</td>
</tr>
<tr>
<td>Välillinen edustus □</td>
</tr>
</tbody>
</table>

### D. LISÄTIEETOJA


### E. YRITYKSEN YHTEYSHEIKILÖN ALLEKIRJOITUS

<table>
<thead>
<tr>
<th>Allekirjoitus ja nimisselvenys</th>
<th>Päivitys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Puhelin</td>
<td></td>
</tr>
<tr>
<td>Faksi</td>
<td></td>
</tr>
<tr>
<td>Sähköposti</td>
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