



**Universidad Del Azuay**

**Faculty of Law**

**School of International Studies**

**ANALYSIS OF HARMONIZED SYSTEM CODE 2309902000,  
NUTRITIONAL SUPPLEMENT PREMIX, FOR IMPORT TO ECUADOR  
FROM THE UNITED STATES**

**Graduation Thesis prior to obtaining the title of  
Bachelor of International Studies, with reference in Foreign Trade**

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## **Dedictory**

I dedicate this thesis to my mother who always with love and enthusiasm gave me a boost to keep going. To her, the human being that I admire the most, to whom I dedicate each of my efforts.

## **Acknowledgement**

I thank those who encouraged me to persevere, to my family, friends and colleagues. Special thanks to Juan Pablo for his time, patience, love and determination.

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## Table of Contents

Introduction.....	1
1 CHAPTER I: PRODUCT INTRODUCTION.....	2
1.1 Introduction.....	3
1.2 Product Introduction.....	3
1.2.1 Product Description.....	3
1.2.2 Sector and business overview.....	6
1.2.3 Trends in demand and supply of products under HS Code 2309902000	7
1.2.4 Analysis of the international market - Major trading partners.....	9
1.3 Domestic Consumption.....	12
1.4 Features and product presentation.....	13
1.4.1 Main Features.....	14
1.4.2 Labeling, packaging, wrapping and palletizing.....	15
1.5 CONCLUSIONS.....	21
2 CHAPTER II: Exports and Imports.- Statistics.....	22
2.1 Introduction.....	22
2.2 Exports e Imports.- Statistics.....	22
2.3 Exports.....	22
2.3.1 Exports Leaders.....	25
2.3.2 General Exports Features from Ecuador to the world.....	26
2.4 Importaciones.....	28
2.4.1 Main Importing Companies in Ecuador.....	30
2.4.2 General features on imports by supplying country.....	30
2.4.3 United States exports profile analysis HS Code 230990.....	32
2.5 CONCLUSIONS.....	34
3 CHAPTER III: Harmonized System Code 2309902000.....	35
3.1 Introduction.....	35
3.2 Harmonized System Code 2309902000.....	36
3.2.1 Analysis of Chapter 23.....	36
3.2.2 Introduction to Chapter 23.....	37
3.3 Analysis of HS Code 2309902000.....	38
3.3.1 HS Code 2309902000 Disaggregated.....	39

3.3.2	Explanation and description of HS Code 2309902000 .....	40
3.4	CONCLUSIONS .....	43
4	CHAPTER IV: Import Process .....	45
4.1	Introduction .....	45
4.2	Importer Registration .....	45
4.3	Negotiation .....	46
4.3.1	Purchase Order .....	46
4.3.2	Incoterms 2010.....	46
4.3.3	Payment.....	48
4.4	Internal Logistics .....	51
4.4.1	Booking.....	51
4.4.2	Insurance Policy .....	52
4.4.3	PackingList.....	53
4.4.4	Bill of Lading .....	53
4.4.5	THC (Terminal Handling Charge).....	54
4.4.6	Cargo handling in Port .....	55
4.5	Customs Processes .....	57
4.5.1	ECUAPASS .....	57
4.5.2	Customs Agent .....	58
4.5.3	Tax payment.....	59
4.5.4	Requiered Documents .....	65
4.5.5	Inspection .....	66
4.6	External Logistics.....	70
4.6.1	Storage.....	70
4.6.2	Products Reception.....	71
4.7	Imports Costs.....	71
4.8	Flowchart.....	74
4.9	CONCLUSIONS .....	75
5	CHAPTER V: FINAL CONCLUSIONS .....	77
	Referencias.....	96
	Bibliografía.....	101

## Index Illustrations and Tables

Tabla 1: Imports of premixes under HS Code 2309902000 .....	8
Table 2: Imports HS Code 23.09.90.20.00 years 2010-2014.....	10
Table 3: Exports Subheading 2309902000 .....	23
Table 4: Main exporters under HS Code 2309902000 .....	25
Table 5: Main export destinations for Ecuadorian products under HS code 2309902000.....	27
Table 6: Subheading 2309902000 Imports .....	28
Table 7: Comparison Chart .....	29
Table 8: Main countries from which products are imported under subheading 2309902000.....	31
Table 9: United States Participation in World Exports.....	32
Table 10: United States World Exports under HS Code 230990.....	32
Table 11: HS Code 230990200 disaggregated.....	40
Table 12: Tariff HS Code 23099020.....	40
Table 13: International Traffic Movement by Port Class 2012 .....	56
Table 14: Imports and Exports at the National Port System 2012.....	56
Table 15: Imported product costing .....	72
Table 16: VAT and Tariffs Application.....	73
Figure 1: Number of Agricultural Production Units by size, as forms of livestock handle and care 2012.....	12
Figure 2: Number of producers by technical assistance received, as UPA sizes.....	13
Figure 3: Label approved by Agrocalidad .....	18
Figure 4: Pallet Birthright PREMIX .....	20
Figure 5: Request import consultation .....	63
Figure 6: Demurrage Calculation MAERSK .....	68
Graph 1: Exports Evolution in tons - Subheading 2309902000 .....	24
Graph 2: FOB export values - Subheading 2309902000 .....	24
Graph 3: Imported tons Evolutions – Subheading 2309902000 .....	29
Graph 4: FOB Evolution Values imported –Subheading 2309902000.....	29

Graph 5: Ecuador’s Participation in United States World Exports.....	33
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Flowchart 1: Procedure to be followed - Letter of Credit.....	49
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Cuadro 2: Importación de pre mezclas de uso animal desde Estados Unidos .....	74
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### **Summary of the Annexes**

Annex 1: Major importers of heading 2309902000.....	85
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Annex 2: Requirements for the registration of companies.....	89
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Annex 3: Requirements for registration of veterinary products.....	90
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Annex 4: Insurance policy.....	91
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Annex 5: Bill of lading.....	102
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## **Abstract**

The following graduation paper explores a field whose importance has increased considerably over the years. We refer to the field of animal nutrition.

The alternative of working with animals is profitable for humans. And, people tend to ensure its revenue optimization. A proper animal nutrition guarantees growing benefits for those working in the livestock field.

Animal feed, is the best alternative for animal nutrition. The pre-mix, acts as the nucleus of the feeding ration. Its content will be crucial to achieve the desired effect. Given the favorable scenario in our country for the commercialization of pre-mixes, it becomes interesting to be aware of the situation faced by the traders of such products. The main aspects of this business will be analyzed in this paper.

## **Introduction**

Having completed the career of International Studies with a major degree on International Trade, in order to gain experience I started as an assistant in an imports company named Ralco Nutritions.

Ralco Nutritions is an American company that imports products under HS Code 23.09.90.20.00 from United States to Ecuador. These products are imported for veterinary use.

In the seek to expand my knowledge as an imports assistant, I realized analysis of this HS Code would be quite useful and rewarding for an International Studies student, since in this specific case the import process includes several elements to analyze and could become applicable to any foreign trade operation that could be performed in the future.

Basically what I am looking for on this paper is to analyze nutritional supplements, PREMIXES, imports requirements to Ecuador from the United States. It also seeks to identify the main actors in foreign trade, HS Code related with this merchandise, as well as study the HS Code market and define opportunities for itself, establishing guidelines to carry out the successful import, mainly focused on veterinary use premixes.

Regarding animal use premixes under this HS Code, these are intended for livestock producers and are designed to enhance their productive and reproductive capacity, in other words to maximize feed and balanced feed efficiency.

Animal feed premixes production and sale facilitate balanced feed's development and ensure an efficient nutrition by providing vitamins and minerals which assure consumption, quality and animal health. Nowadays animal production is looking for the best alternative in a healthier nutrition through which pathological problems that occur in the production cycle is controlled.



Inside premises industry for each animal species such as cattle, horses, swine, poultry, fish, etc. diverse products are developed and intended for animals and livestock production. Given the similarity of procedures and purposes for which veterinary drugs and feed are intended, it has become necessary to unify criteria and to adopt veterinary products and animal feed registration, as well as trade and control regulation.

In this HS Code we find increasing demand products, so it is going to be interesting to analyze the environment in which it operates especially in regard to Ecuador, place which import process has had several changes in recent years, because they have been subject to new policies and import regulations. Imports regulation in some form has developed restriction mechanisms that have significantly prevented all kind of products entry.

So, taking into account the demand that exists for these products and many issues importers face, I considered interesting to make an analysis of this HS Code focusing primarily on the existing market and also several regulations imposed on these products in foreign trade.

Methodology in order to get necessary information for this paper is based on data obtained through entities involved, example: MAGAP, INP, Customs Office, SRI, INEC, PROEcuador among others.

The whole study is based on a theoretical framework backed on books. For information about market and import processes we rely especially in statistical studies.

Other used tools are: websites, digital documents, brochures, and entities involved manuals, among others. All of these, in order to synthesize data and get it, in order to empower this research.

## **1 CHAPTER I: PRODUCT INTRODUCTION**

## **1.1 Introduction**

As a first step to get into our topic of study we are going to focus on basic concepts analysis on this field. So, let's begin by clarifying the concept of premixes, as well as to follow its origins and features that make an interesting topic of study. Later we will focus on the sector and the business behind premixes merchandising, then we will analyze imported products demand and supply under this HS Code.

Premixes import will be analyzed from the United States, so it is important to analyze international markets and to have it clear which countries are our major trading partners. To have a clearer perception of the situation, we are going to analyze domestic production and consumption inside the country of these products. It is essential to know the true importance of premixes in our country's agricultural sector and features they must get, in order to have no drawbacks in merchandising process.

## **1.2 Product Introduction**

Inside agricultural sector, in order to cover all requirements to achieve a suitable animal nutrition to ensure consumption, quality and animal health, it has been developed premixes intended for production animals and livestock (cattle) whose purpose is to increase its production capacity and to maximize feed efficiency. Premixes in most cases work out as food supplements or vitamin and minerals deficiency correctors required in animals diet, in order to achieve a correct maintenance and to lead an optimal production.

### **1.2.1 Product Description**

Industrialization and raw materials transformation for balanced meals preparation make a better use of agricultural products and provide great economic benefits to this sector. This developing industry contributes to a proper growth of animal production, like: poultry, swine, cattle, etc.

It is essential to describe this type of product as an analysis of its origin. Based on Michael L. Westendorf's "Food Waste to Animal Feed" we will discover the

innovative nature of this product and its actual importance not only as an enhancer of animal feed's ability, but as its interesting contribution to environment conservation.<sup>1</sup>

Nowadays, food waste is one of the main obstacles to environment conservation; with a proper selection and treatment process, they can be excellent vitamins and minerals source. Despite sometimes sodium levels in food waste has been worrying, studies have shown that these levels may be accommodated within a balanced diet.

A useful and interesting case was given in 1997, food waste in a university cafeteria was studied, discovering pulp components containing residues of these nutritional elements, and all of these were within acceptable parameters for feeding beef, swine and bovine cattle. It clearly indicated a possibility of converting a waste material in a nutritional product. That is why this type of food's production is ecologically beneficial.<sup>2</sup>

We note the mold is a fairly daunting challenge in this field, which is a commonly present element in these feeds and it can be quite harmful. That is why the animal feeding market is constantly developing innovative alternatives to cancel this complication and develop dry and uniform products. But the risks involved with the use of these products is quite high, so it is very important to follow strict processing parameters, considering that they may even affect human lives.

Premixes themselves are not balanced food. However, they are essential for the balanced food having the desired effect on the animals. Premix itself is a concentrated product that works as the ration core which is given to the animal. Premix portion will depend on the animal needs and it will mix with cereals, grain mill products, animal feed, among others.

Let's see an example for a better understanding:

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<sup>1</sup> Westendorf, Michael. (2000). *Food Waste to Animal Feed (1ra ed.)*. Estados Unidos: Iowa State University.

<sup>2</sup> Westendorf, Michael. (2000). *Food Waste to Animal Feed (1ra ed.)*. Estados Unidos: Iowa State University.

Premix for Feeder Pigs - The producer buys a bag of this product that weighs 30 kg and should add 70 kg of ground corn to complete the feeding. (Explanation by Ing. Jhonny Mackliff, RalcoNutritions)

The following is a premix food composition for our best understanding:

**COMPOSITION:**

Crude Protein (%24,10)	Vitamin E.....260
Lysine (%).....2,10	Copper (ppm).....254,36
Calcium (%) .....0,91	Iron (ppm).....160,40
Phosphorus (%).....0,73	Manganese (ppm).....44,45
Sodium (%).....1,02	Selenium (ppm).....96,0
Potassium (%).....1,22	Zinc (ppm).....96,0
Vitamin A.....66 000	Crude Fiber (%),.....0,02
Vitamin B.....8 800	

We will establish the corresponding premix balanced feed percentage corresponds to 30% because the recommended dose ranges from 10% to 50% of the total feed. It is important to be clear about the relationship between domestic production data and pre-mixes import data concept, for further analysis.

Premixes production has been well received because it comes from seemingly worthless food waste, which can result in a very profitable alternative for those who process and market it.

It is very important to point out briefly that such products are imported under harmonized code 23.09.90.20.00, in later chapters we will make a detailed analysis of why it has been classified in that way, for now it is essential that this information is known for a correct understanding of Chapter I.

### **1.2.2 Sector and business overview**

Premixes for animal use as mentioned above are intended to livestock producers and are designed to enhance their productive and reproductive capacity, ie to maximize feed or food balanced effectiveness.

It is important to understand that premixes will accomplish core function inside feed; premix will be basically the set of vitamins, minerals and essential amino acids that will complement animal portion.

Nowadays, we tend to make premixes in separate facilities and generally outside feed manufacturers property. That is, compound food companies follow the criteria of specialization: some groups make feed and other make premixes, obtaining mutual benefits. Thus the overall responsibility for the quality and levels of collateral goes to the premixes company.

Animal feed premixes production and sale help balanced feed making and ensure efficient nutrition by providing vitamins and minerals that assure consumption, quality and animal health. Nowadays, animal production is looking for the best alternative to reach a healthy nutrition through pathological problem that occur in the production cycle are controlled.

There is a lot of competition in this field, everyone wants to get involved into it, struggling to provide quality and innovative products and also providing an barely known alternative in the past but very useful for agricultural management today, all of these because premixes production is an attractive business inside the agricultural sector. Despite to start off from a seemingly worthless waste feed that involves high profitability, premixes developing implies a product quality carefully control, essentially because its conservation is very demanding and the consequences of a improper product status can be truly catastrophic both for animals and humans.

This type of production process flow is not homogeneous, many factors can vary depending on the animal species involved and the role they will play in each species.

However, production process flow in general terms can be as the following:

1. Receiving raw materials.
2. Cleaning, sorting and storage
3. Grinding or crushed
4. Mixing
5. Adding molasses to premixed feed
6. Drying
7. Storage

### 1.2.3 Trends in demand and supply of products under HS Code 2309902000

AFABA (Ecuadorian Association of Balanced Feed Manufacturers) is a feed producer's organization and supplier for animal protein, in this matter; we get interesting data about balanced production in Ecuadorian provinces:

**Gráfico 1:** 2011 Balanced feed production (in metric tons)

<b>Balanced feed production</b>								
<b>AFABA (2011)</b>								
<b>Province</b>	<b>Farming</b>	<b>Posture</b>	<b>Shrimp</b>	<b>Tilapia</b>	<b>Porcine</b>	<b>Bovine</b>	<b>Others</b>	<b>Production</b>
AZUAY	16.950	2.200	0	0	600	510	500	20.760
COTOPAZI	196.000	30.077	0	0	8.473	710	0	39.456
EL ORO	12.445	0	0	0	1.053	866.000	16.761	31.125
GUAYAS	30.370	20.523	98.323	35.638	3.920	4.809	5.846	199.429
IMBABURA	23.717	0	0	0	0	0	0	23.717
LOS RIOS	10.471	0	0	0	0	0	0	10.471
MANABÍ	64.305	39.016	297	0	922	423	322	105.285
PICHINCHA	129.324	73.030	0	142	7.705	2.851	3.321	216.373
TUNGURAHUA	77.241	234.220	0	0	22.977	3.089	12.948	350.475
<b>TOTAL</b>	<b>365.020</b>	<b>399.066</b>	<b>98.620</b>	<b>35.780</b>	<b>46.650</b>	<b>13.258</b>	<b>39.698</b>	<b>997.092</b>

**Source:** Ecuadorian Association of Balanced Feed Manufacturers

Main balanced feed producing province is Tungurahua, this is followed by Pichincha and Guayas. Azuay is clearly not a significant producer.

Comparing domestic production information with imports index the same year, we note that there is a huge difference, domestic production considerably exceeds imports. However, we must realize that we are referring to balanced feed as such, so it's not accurate. Since as indicated above, balanced feed is obtained by mixing the premix core or with the complement (example: Ground corn). We could consider that only 30% of balanced feed as such corresponds to the premix.

**Tabla 1:** Imports of premixes under HS Code 2309902000

<b>PREMIXES IMPORTS 2309902000</b>				
<b>DESCRIPTION</b>	<b>YEAR</b>	<b>TONS</b>	<b>FOB-DÓLAR</b>	<b>CIF-DÓLAR</b>
PREMIXES	2011-1/2011-12	10151,36	20650,68	22162,99
PREMIXES	2012-1/2012-12	13605,33	30433,49	32479,09
PREMIXES	2013-1/2013-11	13431,58	31677,1	33750,22

**Source:** Central Bank of Ecuador

We know that 997,092 tons of balanced feed were produced in 2011 and just 30% of it corresponds to premix itself, which is 299,127 tons. We know that 10 151 tons of premixes were imported, so it is noticeable that just 3% was supplied by imported products. That is, the remaining 97% was supplied by local production, which indicates that internally we have a pretty good capacity. However, the imports increase of 35% for the year 2012, will tell us that these products possibly were well received.

In AFABA's official website ([www.afaba.org](http://www.afaba.org)) we are going to find all relevant information (phone, contact, address) about balanced feed largest producers in each of the provinces of Ecuador, in this directory we will find about 100 contacts. Each of these balanced feed producers represent a business opportunity due to the fact that most of them require premixes for balanced feed development and a very few of them make it in their facilities. However, this is just a market portion that we can supply because not all balanced feed producers are AFABA partners.

One of the most prominent cases in balanced feed production is Molinos Champions or El Granjero, these companies produce their premixes locally. However, in order to innovate and meet all consumer demands sometimes they use different pre mixes providers.

#### **1.2.4 Analysis of the international market - Major trading partners.**

As a first point for global market analysis, and based on the data provided by TradeMap, we establish that Holland is the largest importer and exporter of animal premixes worldwide. This is a result for its significant development on agriculture. The most important companies in this country are: Nutreco, Otter Feed Components, Koninklijke Bunge, Scholtus Special Products, Alfred C. Toepfer International, among others.

Other country with great influence in the international market is the United States, the second largest exporter and fifth largest importer. In this country there is a fairly wide range of companies manufacturing such products, among the most important we have XF Enterprises, Ray Croll County Grain Growers, Farmers Supply Center, Cargill, among others.

According to Google Finance tool worldwide the most important companies in premixes manufacturing by revenue and number of employees are:

- Cargill: is an American company based in Minnesota, operates in 67 countries, it has 150 years market experience and shows a broad products portfolio and services to provide comprehensive support in agricultural field.<sup>3</sup>
- Nutreco: is a Dutch company specialized in animal nutrition, employs approximately 7,500 people. It is in 30 countries and it has sales in 80 countries approximately.<sup>4</sup>
- Agfeed Industries: Concentrate its trading activity in China and the United States. It is a company dedicated to animal premixes research, development, manufacture and marketing.<sup>5</sup>

Now we are going to learn about the relationship between our country and international markets, we will start with our imports indexes analysis, so, those will give us a clue of who our major trading partners are.

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<sup>3</sup>Cargill. (2014) Our Company. Date of consultation: 10 de mayo del 2014. URL: <http://www.cargill.com/>

<sup>4</sup> Nutreco. (2014) About us. Date of consultation: 10 de mayo del 2014. URL: <http://www.nutreco.com/>

<sup>5</sup> Google Finance (2014) AgFeed Industries Inc. Date of consultation: 10 de mayo del 2014. URL: <http://www.google.com/finance?cid=718968>



This will be discussed further in the next chapter.

**Table 2:** Imports HS Code 23.09.90.20.00 years 2010-2014

<b>NANDINA</b>	<b>COUNTRY</b>	<b>TONS</b>	<b>FOB – DÓLAR</b>	<b>CIF - DOLAR</b>	<b>% TOTAL FOB</b>
PREMIXES	United States	16 413,39	37 638,57	41 121,51	33,71
	Colombia	9 546,97	17 692,85	18 191,33	15,85
	Brazil	6 347,15	12 432,36	13 273,25	11,14
	Spain	6 634,98	10 156,34	11 132,29	9,10
	Panamá	810,69	7 784,36	7 973,82	6,98
	Mexico	2 376,82	5 712,75	6 052,08	5,12
	China	3 075,49	5 176,84	5 621,80	4,64
	Belgium	1 039,37	2 644,63	2 847,49	2,37
	Chile	1 041,81	2 215,53	2 296,72	1,99
	Germany	638,90	1 982,12	2 119,11	1,78
	United Kingdom	612,02	1 483,13	1 609,79	1,33
	France	472,33	1 132,18	1 234,43	1,02
	Peru	336,84	1 014,28	1 044,09	0,91
	Italy	189,68	930,32	1 009,21	0,84
	Holland	321,83	903,39	959,89	0,81
	Singapore	92,92	576,20	602,20	0,52
	Argentina	510,20	492,99	545,44	0,45
	India	100,00	345,72	367,10	0,31
	Japan	30,68	301,20	319,89	0,27
	South Korea	91,03	240,46	256,98	0,22
	Austria	69,48	237,61	255,74	0,22
	Denmark	67,10	171,13	183,24	0,16
	Greece	24,80	95,27	102,07	0,09
	Hong Kong	24,00	63,15	69,06	0,06
	Malaysia	14,01	61,79	65,76	0,06
	Guatemala	20,80	59,79	64,66	0,06
	Canada	6,16	56,45	59,64	0,06
	Switzerland	0,80	15,19	18,55	0,02
	Australia	0,09	9,45	10,48	0,01
	Uruguay	1,19	9,09	10,07	0,01
	Taiwan	0,63	909	9,80	0,01
	Venezuela	2,54	8,32	10,24	0,01
	Dom. Rep.	0,53	6,35	6,63	0,01
	New Zeeland	0,20	3,95	5,58	0,01
	Thailand	0,90	3,65	5,02	0,01
	<b>TOTAL:</b>	<b>50 916,24</b>	<b>111 666,37</b>	<b>119 454,81</b>	<b>100,00</b>

**Source:** Central Bank of Ecuador

As it can be seen in Central Bank of Ecuador information, in recent years the United States has been the domestic market main supplier for this kind of imports, which have an average of 38% contribution per year on the total FOB. This is followed by Colombia with 17%, quite distant from the imports average coming from the United States.

United States is a major agricultural product exporter and importer. It is agricultural products major supplier to Latin America. Reports published after 1997 indicate that the organic area in the country has been growing steadily, consolidating the United States as a specialized industry, prepared to meet the growing interest in specialized organic products development, subject to important quality control. It suggests that this country situation in the world makes in their buyers a certain confidence level.

The United States throughout the years has become one of the leading exporters in the world, this mainly for its surplus capacity and also for the export policy developed over the years, providing debt facilities, insurance and guarantees. (The agricultural trade in southern, 1989)

It is very important to know about the different alternatives presented in terms of suppliers, because this will be for our business development, a determining factor. Also it is important to consider prices, delivery and supply capacity but especially in this particular field, is essential as an importer to pay special attention to the products purchase origin. Especially when we are dealing with hazardous products, since in this particular case a improper use could cause real complications for those who market them, it is essential our supplier gives us guarantees about the products we will distribute.

### 1.3 Domestic Consumption

The National Agriculture Census indicates forms of management and care of feed in our country. The figures give us a pretty good idea of the use of premixes in our country.

**Figure 1:** Number of Agricultural Production Units by size, as forms of livestock handle and care 2012.

Handling and caring of SHEEP		TOTAL	UPA SIZES									
			LESS 1 ACRE	1 TO 2 ACRES	2 TO 3 ACRES	3 TO 5 ACRES	5 TO 10 ACRES	10 TO 20 ACRES	20 TO 50 ACRES	50 TO 100 ACRES	100 TO 200 ACRES	200 AND BEYOND
<b>Main form of feeding</b>												
Pasture	UPAs	174.016	54.021	32.619	22.139	23.392	20.489	11.537	6.320	2.084	792	625
Balanced Feed	UPAs	660	211	63	55	129	117	31	32	14	*	*
Household Waste	UPAs	4.067	1.930	1.005	385	367	196	139	25	*	*	*
Others	UPAs	5.343	2.302	1.284	713	466	324	177	54	19	*	*
TOTAL		843.426										
Handling and caring of SWINE		TOTAL	UPA SIZES									
			LESS 1 ACRE	1 TO 2 ACRES	2 TO 3 ACRES	3 TO 5 ACRES	5 TO 10 ACRES	10 TO 20 ACRES	20 TO 50 ACRES	50 TO 100 ACRES	100 TO 200 ACRES	200 AND BEYOND
<b>Main form of feeding</b>												
Balanced Feed	UPAs	32.870	10.998	4.809	2.609	3.202	3.389	2.795	2.824	1.273	666	305
Bananas	UPAs	82.787	14.897	7.222	5.212	6.94	10.744	11.054	15.385	7.997	2.443	895
Household Waste	UPAs	257.979	85.349	41.219	27.767	31.134	29.515	19.267	15.255	5.674	1.966	833
Rice Powder	UPAs	40.065	9.390	5.782	4.967	5.599	5.838	3.975	2.887	1.003	401	222
Others	UPAs	43.218	9.715	5.055	3.640	4.851	6.426	5.052	5.021	2.067	939	451
TOTAL		456.919										
Handling and caring of CATTLE		TOTAL	UPA SIZES									
			LESS 1 ACRE	1 TO 2 ACRES	2 TO 3 ACRES	3 TO 5 ACRES	5 TO 10 ACRES	10 TO 20 ACRES	20 TO 50 ACRES	50 TO 100 ACRES	100 TO 200 ACRES	200 AND BEYOND
<b>Main form of feeding</b>												
Bananas	UPAs	4.266	2.246	614	373	342	280	229	115	37	20	10
Balanced Feed	UPAs	667	215	232	31	48	52	41	29	7	5	6
Others	UPAs	14.826	5.482	3.543	1.756	1.597	1.17	648	433	129	35	34
TOTAL		686.092										

**Source:** National Institute of Statistics and Censuses

\* Upa: Agricultural Production Unit. It is a 500 m<sup>2</sup> tract of land or more, dedicated wholly or partly for agricultural production, considered as one economic unit.

78% of sheep is fed with balanced feed; this is the main supply alternative according to data collected by the INEC.

Swine is a different case, only 7% is fed with balanced feed. The main form of feed is household waste.

Finally, cattle uses the most balanced feed with 97%.

We conclude in these three kinds of livestock balanced feed is the most important with the 68% participation in different kinds of feed.

So, it would be interesting to consider who provides farmers consulting, as this data determines a great chance to increasing consumers.

**Figure 2:** Number of producers by technical assistance received, as UPA sizes.

UPA SIZE		MOST IMPORTANT TECHNICAL ASSISTANCE									
		NATIONAL TOTAL	National Development Bank	Agricultural Cooperative	Commercial Units	Universities	Natural Person	Foundations or NGOs	MAG-INIAP	Other Public Institution	Other Private Institution
NATIONAL TOTAL	Producers	57.171	1.005	1.455	5.381	1.024	13.595	13.564	8.758	3.789	8.599
	Acres	2.194.469	44.924	38.729	212.991	30.186	670.725	307.040	349.993	90.278	449.604
LESS 1 ACRE	Producers	10.693	*	*	826	305	3.043	3.435	1.280	962	639
	Acres	4.534	*	*	381	110	1.080	1.595	624	375	261
1 TO 2 ACRES	Producers	6.658	56	132	661	124	1.435	2.181	912	341	816
	Acres	9.145	78	171	899	165	1.888	3.073	1.274	469	1.127
2 TO 3 ACRES	Producers	4.565	*	*	491	29	988	1.228	810	305	589
	Acres	10.802	*	*	1.112	70	2.333	2.926	1.925	730	1.425
3 TO 5 ACRES	Producers	6.202	121	145	597	109	1.295	1.781	858	467	830
	Acres	23.364	558	504	2.290	371	4.913	6.676	3.215	1.735	3.102
5 TO 10 ACRES	Producers	6.971	191	246	662	65	1.264	1.762	1.221	436	1.123
	Acres	48.077	1.342	1.664	4.613	504	8.867	12.031	8.462	2.986	7.609
10 TO 20 ACRES	Producers	6.542	137	195	647	192	1.409	1.260	1.163	386	1.154
	Acres	88.832	1.900	2.670	8.989	2.585	19.296	16.631	15.837	5.282	15.642
20 TO 50 ACRES	Producers	7.312	171	274	670	95	1.737	1.151	1.087	502	1.625
	Acres	232.765	5.634	9.155	20.389	2.880	56.683	35.084	34.289	16.358	52.294
50 TO 100 ACRES	Producers	3.942	131	141	341	57	1.079	458	607	240	887
	Acres	265.156	8.259	8.989	24.227	3.540	72.470	29.537	41.306	16.338	60.489
100 TO 200 ACRES	Producers	2.463	71	68	251	29	662	145	526	113	598
	Acres	325.482	9.272	9.048	35.399	3.923	88.331	17.288	68.749	15.413	78.059
200 AND BEYOND	Producers	1.823	38	18	234	19	682	164	294	37	337
	Acres	1.186.312	17.775	6.245	114.693	16.038	414.864	182.198	174.313	30.591	229.596

**Source:** National Institute of Statistics and Censuses

As we can see the main consulting sources are Natural Person, reaching to 13,595 producers and foundations or NGOs that reaches to 13,564 producers. Private institutions also play an important role in the field of technical assistance to producers. However, at the time to establishing a premises business ideally conducting negotiations with these foundations for their mutual benefit in order to position itself on the market and create awareness that we seek in our products on the benefits that provides balanced feed.

#### 1.4 Features and product presentation

For each animal species such as cattle, horses, swine, poultry, fish, etc. premises products are developed. That is, they are intended for animals and livestock production. Given the similarity of procedures and purposes for which they are intended, feed and veterinary drugs, it has become necessary to unify criteria and to adopt a regulation on the registration, trade and control of veterinary products and animal feed.

Feed should develop and maintain in appropriate conditions in order to protect them from plagues or by chemical, physical or microbiological contaminants or other substances during their stages of production, handling, storage and transport. There should apply good agricultural practices, good manufacturing practices (BPF) and, if applicable, the principles of the system of Hazard Analysis and Critical Control Point (HACCP) in order to control hazards that may occur in feed.

In Ecuador, MAGAP (Ministry of Agriculture, Livestock, Aquaculture and Fishery) is the verifying responsible entity in order to feed complies with the above points. But, is still necessary to produce feed or feed ingredients, and who makes animal products, assist in potential hazards identification and risk levels dangerous to consumer's health.

#### **1.4.1 Main Features**

Based on, Ing. Arnaiz Valentino's document, Montana SA consultant, a premixes market leader in Peru with presence in Ecuador through Anlagen, we will analyze the main guidelines which it should follow every premixes producer and retailer:

- Packaging that provide product stability

It is essential that the product is resistant to climate change and is resistant to a reasonable exposure to moisture. A premix should maintain the stability of each of the vitamins in it during shipping and its storage under normal conditions, without requiring expensive air conditioned storages.

- Very good flow

Its cohesion degree must always be lower than 20%, its compressibility less than 1.25 and its repose angle must be between 20 and 40 degrees.

- Vitamins protected against redox reactions aggressiveness

As the redox the main cause for vitamins degradation, it is necessary to reduce moisture and components such as organic acids, reducing sugars, trace minerals, oxidizing fats that are activated by the presence of value, heat and mechanical action, during the feed storage period.

That's why in order to ensure the best quality of each of their products the premixes company should have:

An excellent technical team qualified in quality control laboratories equipped with modern appliances which vitamins concentration in each raw material lot is guaranteed, as well as each premix lot that is delivered to customers.

A vehicle specially formulated and sanitized to achieve a good raw materials mixing.

A controlled environment (humidity and temperature) on the weighing of vitamins is made, avoiding possible for them once opened the original packaging.

"Feed ingredients should be obtained from reliable sources, and bring under a risk analysis if obtained through processes or not evaluated technologies to the point of view of feed safety. The used procedure must comply with the Working Principles for Risk Analysis in the Framework of the Codex Alimentarius. In particular, feed additives manufacturers should provide the user clear information to enable proper and safe use. Monitoring feed ingredients should include inspection, sampling and analysis to determine the presence of contaminants using risk-based protocols. These ingredients should meet acceptable standards and, when applicable, statutory standards for levels of pathogens, mycotoxins, pesticides, which may pose health hazards to consumers." (Food and Agriculture Organization of the United Nations)

#### **1.4.2 Labeling, packaging, wrapping and palletizing.**

Labeling and packaging play an essential role in any process of international trade. It is necessary the importer and exporter to know about the importance of these elements. As follows:

- Labeling

According to the Code of Practice on Good Animal Feeding issued by the Food and Agriculture of the United Nations, labeling should be clear and informative to the user to handle, store and use the feed and feed ingredients. It shall comply with all regulatory requirements and provide a feed's description and instructions for use. Labeling is a "piece of paper, film or foil that is attached to a container or packaging. The label usually contains graphic design and printed product information. Recently there have been eco-labels that inform about the quality of the environmental impact of the whole package-product." (International Trade Centre UNCTAD / WTO, 2012)

Currently each country applies different labeling policies independently according to law. Under asymmetric information, seeking to ensure quality and in order to protect consumers who are not able to distinguish different products, governments have adopted specific labeling features. (World Trade Organization, 2013)

In the case of animal use premixes, labels must comply with regulations imposed by Agrocalidad. Usually the information required in labeling is:

- Product Code
- Product Name
- Description
- Guaranteed Analysis
- Composition
- Ingredients
- Observation for use
- Instructions for use
- Storage conditions
- Manufacturer Name
- Name of Importer and Distributor
- Net weight
- Elaboration Date
- Expiry date

- Lot Number
- Registration Number

Product price shall appear in labeling, when it arrives at the importer's warehouses, before being marketed. Example: P.V.P \$ 9.39 (1kg Birthright Value).

Labeling issue is a requirement to be met by such products to enable importing.


An example of a label approved by Agrocalidad is attached:



Figure 3: Label approved by Agrocalidad

# Pre-mezcla Birthright

UN SUPLEMENTO NUTRICIONAL COMPLETO  
PARA CERDOS PEQUEÑOS



**ANÁLISIS GARANTIZADO:**

Proteína Cruda, Min.....	22.75 %
Lisina, Min.....	1.75 %
Grasa Cruda, Min.....	17.5 %
Fibra Cruda, Max.....	0.3 %
Calcio, M.....	0.65 %
Calcio, Max.....	1.15 %
Fósforo, Min.....	0.65 %
Sodio, Min.....	0.75 %
Sodio, Max.....	1.25 %
Selenio, Min.....	0.25 ppm
Zinc, Min.....	70 ppm

**COMPOSICIÓN**

Proteína Cruda (% 24.10)	Vitamina E (KIU/lb)	260
Lisina (%)	Cobre (ppm)	254.36
Calcio (%)	Hierro (ppm)	160.40
Fósforo (%)	Manganeso (ppm)	44.45
Sodio (%)	Selenio (ppm)	0.357
Potasio (%)	Zinc (ppm)	96.0
Vitamina A (KIU/lb) 8,000	Fibra Cruda (%)	0.02
Vitamina D3 (KIU/lb) 8,000		

**INGREDIENTES:** Suero seco, leche descremada en polvo, caseína, proteína de suero concentrado, plasma porcina, grasa animal (preservada con hidróxido de anisol buñado (EHA)), Aceite de coco, L-Lisina, DL-metionina, lecitina, ácido cítrico, Sorbato de potasio, suplemento de vitamina B12, Acetato de vitamina A, Esterol animal d-activado (fuente de vitamina D3), acetato di-sila tocoferol (fuente de vitamina E), suplemento de riboflavina, biotina, pantotenato de calcio, Cloruro de colina, Acido fólico, complejo de bisulfito sodico de menadiona (fuente de vitamina K), niacina, hidrócloruro de piridoxina, monofosfato de tiamina, carbonato de calcio, fosfato dicalcico, sulfato de cobalto, sulfato de cobre, dihidroóxido de etilendiamina, yoduro de potasio yodato de calcio, monohidrato de sulfato ferrico, sulfato de magnesio, sulfato de manganeso, levadura de selenio, sulfato de zinc, proteinato de cobre, proteinato de manganeso, proteinato de hierro, proteinato de zinc, oregano, extracto de hemicelulosa, sabores naturales y artificiales.

**INSTRUCCIONES DE COMO ALIMENTAR:** Todas las camadas deben alimentarse con el sustituto de leche dentro de 12 horas después del nacimiento.

**CALOSTRO:** Asegurarse que los lechones reciban tanto calostro como sea posible inmediatamente después del nacimiento. El cambio de lechones de una camada a otra ayuda a asegurar que cada lechón reciba suficiente calostro. Si la cerda no proporciona calostro, existen productos comerciales disponibles o calostro de vaca (primera leche de las glándulas mamarias). A los lechones débiles se les puede suministrar calostro con la ayuda de una jeringa o un tubo.

**SUPLEMENTO CAMADAS:** Mezclar 130 gramos (4.6 onzas) del sustituto de leche en polvo con 870 ml de agua. El sustituto de leche en polvo debe ser suministrado con agua fría desde las 12 horas de edad hasta el día 14 y después resingir el suministro para estimular el consumo de alimento sólido antes del destete. El alimento pre-destete debe ser suministrado desde los 5 a 7 días de edad hasta el destete, aun durante el periodo cuando el sustituto de leche se está suministrando.

**Para alimentar a los lechones con la leche,** ponga media copa de leche en el contenedor. Sumerja la nariz de 2 a 3 lechones para estimular el consumo. Siempre mantenga suficiente leche en el contenedor. Nunca diluya la leche a una concentración menor a la indicada, menos de 130 gramos (4.6 onzas) por 870 ml de agua. Esto puede causar diarrea en los lechones. En camadas grandes o cerdas de poca producción de leche incrementa la cantidad de leche en polvo de 150 a 160 gramos (5.3 a 5.6 onzas) por 870 ml de agua. Asegúrese que los lechones tengan una fuente fresca y limpia de agua en la jaula de pación.


**Se debe limpiar los contenedores de leche todos los días.** Lávelos con agua fría primero, luego távelos y desinfectados con agua tibia o caliente.

**Coloque los contenedores de leche en un lugar bien drenado.** No los coloque en esquinas o debajo de lámparas de calor. Una buena localización es en la parte frontal lateral de la cerda.

**Si ocurre diarrea:** Duplique la cantidad de leche en polvo. Si la diarrea no para, remover la leche y suministrar a los lechones una solución de electrolitos. Contactar a su veterinario.

**Lechones Huérfanos:** Mezclar 160 gramos (5.3 onzas) de leche en polvo con 870 ml de agua. Proveer suficiente leche y alimento predestete. Coloquelos en un corral seco y cálido. Asegúrese que exista una buena fuente de agua.

Estas instrucciones son para Premix Birthright solamente y no para otros sustitutos de leche. Pregunte a su Representante de Ventas por la información sobre contenedores de leche y el programa completo de alimentos para lechones de Birthright. Almacenar en un lugar fresco y seco, lejos de la luz directa del sol, manteniendo el envase herméticamente cerrado. Mantener fuera del alcance de los niños. Uso Veterinario. No tóxico.



FABRICADO POR: Raico Nutrition, Inc.  
1600 Hahn Road, Marshall, MN 56258 USA  
1-800-533-5305 www.RaicoNutrition.com

IMPORTADO Y DISTRIBUIDO POR:  
RALCO NUTRITION / RALCO NUTRI CIA. LTDA  
Edificio Acrópolis, Quinto Piso  
Oficina 510-511  
Av. José Perilla 4-138 y Av. 12 de abril  
Cuenca- Ecuador  
Teléfono: 07 410 37 07

LAG018

**Peso Neto: 1kg**

Source: Ralco Nutritions

Labeling, packaging and packing play an essential role, in any process of international trade. It is necessary the importer and exporter to know about the importance of these elements. As follows:

- Packaging

"The package is the primary unit of protection merchandise, which is then fitted into the container." (ALADI, 2013)

As the labeling, the package is subject to each country laws. This aspect is important to consult before making any kind of import.

The basic features of packaging for these kinds of products are:

- Packages should present a good enough mechanical strength to protect the contents during shipping.
- Packages must be attached to market demand, as regards as their requirements in shape, size and weight.
- The material should be resistant to any chemical that is contained to prevent transfer. Additionally, spillage should be prevented.
- It must resist caloric conditions in which it is subjected.

- Wrapping

According to the official website of the LAIA, wrapping protect goods its features and quality, during handling and management.

The main function of wrapping is basically product protection during transportation, handling and transport, so they reach the consignee in good condition and without detracting from leaving the facility where production took place. The type of packing will depend on the quality of the product.

- Palletizing

The pallet is a wooden, plastic, cardboard, paper or paperboard, depending on the function or use to which it will give, on which the goods are located. Its structure allows the proper handling of goods without being damaged, plus it simplifies and accelerates tasks of loading, unloading and storage. A universal pallet measures 1200 x 800 mm.

To get a better perception of its use and size, Ralco placed 80 units of its product Birthright of 11,34 kg on a wooden pallet. Low density polyethylene and transparent plastic to protect the product is used during its transportation.

**Figure 4:** Pallet Birthright PREMIX.



**Source:** *Ralco Nutritions.*

## 1.5 CONCLUSIONS

The premixes are an innovative alternative to increase feed's production capacity.

Imports index under harmonized code 230990200 has increased since 2011, which implies premixes demand has increased.

Premix is balanced feed's core, not balanced feed itself. Balanced feed producers in Ecuador are not necessarily premixes producers, as is the case of Molinos Champions or El Granjero, so each of them represents a business opportunity for those who sell pre-mixes, even those who produced in their facilities need brand new suppliers to innovate and satisfy the needs to all their customers.

For producers, balanced feed use is quite high, especially for sheep and cattle. An alternative to further increase its acceptance among producers would be developing partnerships with their advisors.

As importers it is very important to have a clear perspective on international markets, in which we operate and its alternatives. The provider of our choice may determine the success or failure of our business.

Feed's development and marketing, demand careful processes and rigorous quality control. The most important quality requirements are steady packaging, good fluency and protection against oxidation-reduction (redox) reactions.

To ensure its use is important to count with product labeling, since it will give the buyer all the information needed for a proper use of the good.

## **2 CHAPTER II: Exports and Imports.- Statistics**

### **2.1 Introduction**

In this chapter we will get a better perspective in goods trading to subheading 230990 worldwide.

We are going to know the main animal use premixes exporters in the country and the main destinations for Ecuadorian exports. Similarly we are going to analyze the main importers and the origin of this type of imports.

All this in order to understand the commercial moves of these goods and also to perform a comparative analysis of the exit and entry of such products into the country in order to identify possible business opportunities in premixes.

### **2.2 Exports and Imports.- Statistics**

International trade is defined as the exchange of goods and services between countries. Exporting refers to the free exit of goods outwards, and importing the entry of goods from abroad.

The statistics are intended to collecting, organizing and summarizing data. Statistical analysis of foreign trade operations which is carried out with a harmonized code will allow us to draw conclusions and make decisions regarding a business development.

### **2.3 Exports**

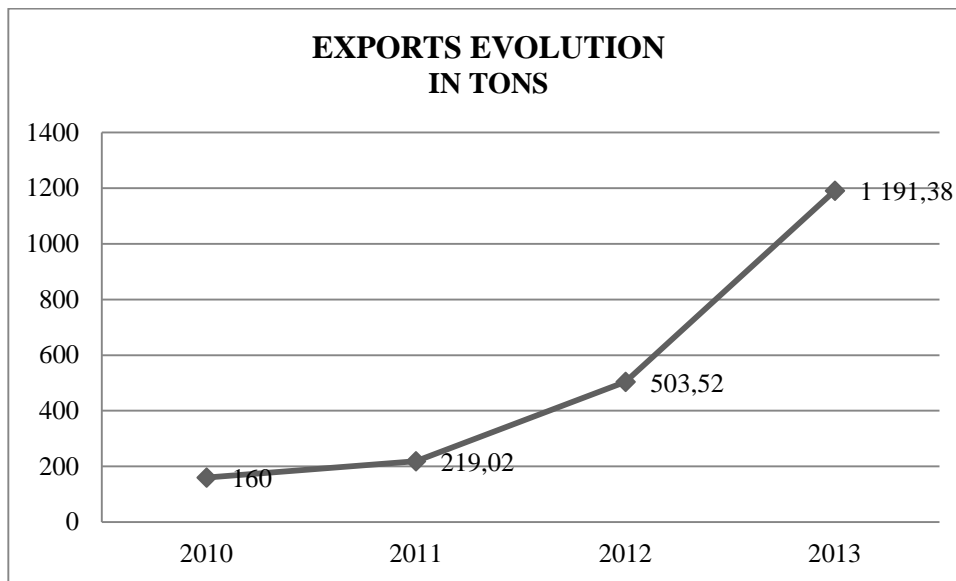
From year 2010 we noticed a significant growth in both values and export volumes of premixes. We note at the end of 2013 amounts become 5 times greater than they were in 2010.

**Table 3:** Exports Subpheading 2309902000

<b>YEAR</b>	<b>SUBHEADING</b>	<b>DESCRIPTION</b>	<b>TONS</b>	<b>FOB DÓLAR</b> –
2010	2309902000	PREMIXES	160	275,78
2011	2309902000	PREMIXES	219,02	361,56
2012	2309902000	PREMIXES	503,52	645,02
2013	2309902000	PREMIXES S	1 191,38	1 477,21

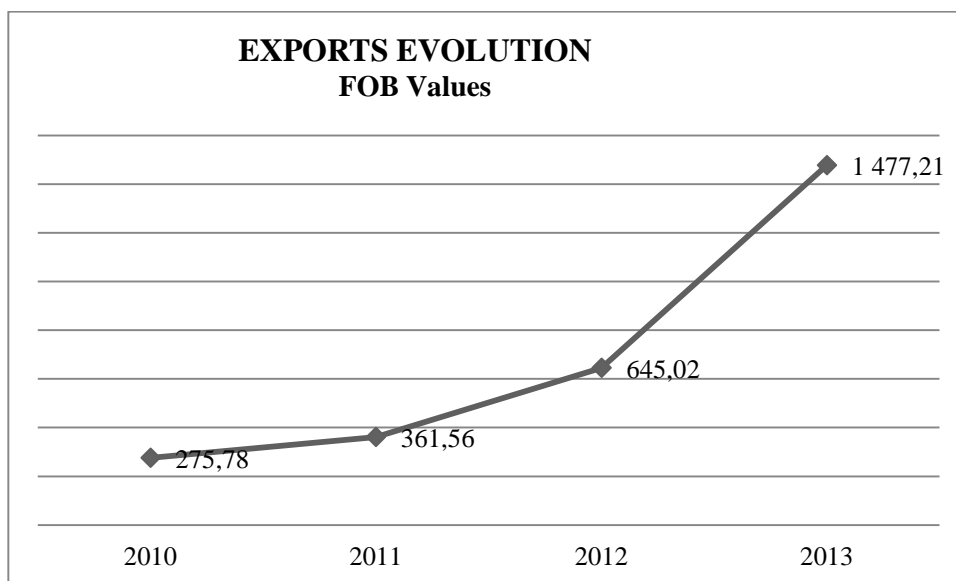
**Fuente:** Banco Central del Ecuador

**Graph 1:** Exports Evolution in tons - Subheading 2309902000



**Source:** Central Bank of Ecuador

**Graph 2:** FOB export values - Subheading 2309902000



**Source:** Central Bank of Ecuador

There is an annual growth of 50% in both quantities and values exported. This clearly reflects an important country development in products merchandising included in this HS code.

### 2.3.1 Exports Leaders

According to Central Bank of Ecuador statistics, there are some premixes exporters under HS Code 230992000. As the leading exporter we have “Aditivos y Alimentos SA”, the first company in Ecuador to develop nutritional products for Animal Industry, the company offers "solutions for animal nutrition and farm management." They feature premixes for poultry, swine, cattle, equine, aquaculture, fishing and pet.

**Table 4:** Main exporters under HS Code 2309902000

NANDINA	NANDINA DESCRIPTION	EXPORTER NAME
2309902000	PREMIXES	ADITIVOS Y ALIMENTOS S.A.
		ALLTECH ECUADOR CIA. LTDA.
		DECUGENSA S.A.
		DOLCA S.A.
		ECUADPREMEX S.A.
		FARMAVET CIA LTDA.
		FEEDPRO S.A.
		GISIS S.A.
		KARAKORAM ECUADOR S.A.
		MARINE PROTEIN MARPROT S.A.
		MOLINOS CHAMPION S.A.
		PFIZER ANIMAL HEALTH CIA. LTDA.
		PRILAB S.A. PRIME LABORATORIO S.A.
		PROTEINAS DEL ECUADOR ECUAPROTEIN S.A.

**Source:** Central Bank of Ecuador

An exporting company has to comply with topics like quantity, quality, continuity, creativity and competitiveness.



### **2.3.2 General Exports Features from Ecuador to the world**

Ecuador is a country that produces and exports balanced feed for animals primarily to Central America, Caribbean, Europe and Asia according to Central Bank of Ecuador, from 2010 to 2013. The country that imported premixes from Ecuador is Panama, that covers 31.27% of total exports. This is mainly because Ecuador and Panama have good trade relations.

We also find Dominican Republic with 19.56% of these exports, Honduras 12.94%, Pakistan 6.29%, and USA 6.21% as the most popular destinations for animal use.

We have to mention that by 2014 trade relations will be expected between Ecuador and Europe are strengthened as a result of the work of the Ministry of Foreign Trade in pursuit of signing a trade agreement between USA, Colombia and Peru for trade barriers removal.

Ecuador's relations with Middle Eastern countries, are strengthened, especially in regard to exports and imports in the agricultural and livestock sector.

**Table 5:** Main export destinations for Ecuadorian products under HS code 2309902000

NANDINA	NANDINA DESCRIPTION	COUNTRY	TONS	FOB – DÓLAR	% / TOTAL FOB - DOLAR
2309902000	PREMIX	PANAMA	590,55	862,84	31,27
		DOM. REP	572,41	539,7	19,56
		HONDURAS	278,85	356,97	12,94
		PAKISTAN	85,06	173,55	6,29
		U.S.A	188,67	171,17	6,21
		EL SALVADOR	102,8	129,48	4,7
		PERU	20	120,6	4,38
		CUBA	23,6	95,94	3,48
		BARBADOS	97,5	95,8	3,48
		U.A.E	1,21	56,62	2,06
		MEXICO	10,42	54,12	1,97
		COSTA RICA	32	32,62	1,19
		SPAIN	8,13	16,36	0,6
		URUGUAY	19,9	15,97	0,58
		COLOMBIA	17	15,79	0,58
		VIET NAM	18,75	7,96	0,29
		TAIWAN	2,54	4,87	0,18
		NICARAGUA	3,24	4,5	0,17
		BANGLADESH	0,5	2,9	0,11
		CHILE	0,8	1,89	0,07
<b>GENERAL TOTAL:</b>			<b>2 073,89</b>	<b>2 759,56</b>	<b>100</b>

**Source:** Central Bank of Ecuador

## 2.4 Importaciones

HS Code 2309902000 world imports presents a remarkable growth over the years, especially from 2011 to 2012, years which we see a growth of FOB value of imports of 47% and 34% increase in tons imported.

**Table 6:** Subheading 2309902000 Imports

YEAR	NANDINA	DESCRIPTION	TONS	FOB DOLAR	- CIF DOLAR	-
2010	2309902000	PREMIXES	8 788,43	17 797,51	19 208,02	
2011	2309902000	PREMIXES	10 151,36	20 650,68	22 162,99	
2012	2309902000	PREMIXES	13 605,33	30 433,49	32 479,09	
2013	2309902000	PREMIXES	14 304,97	34 179,85	36 395,02	

**Source:** Central Bank of Ecuador

Looking at this data immediately we notice that imports level is abysmally higher than exports level of products under harmonized code 2,309,902,000.

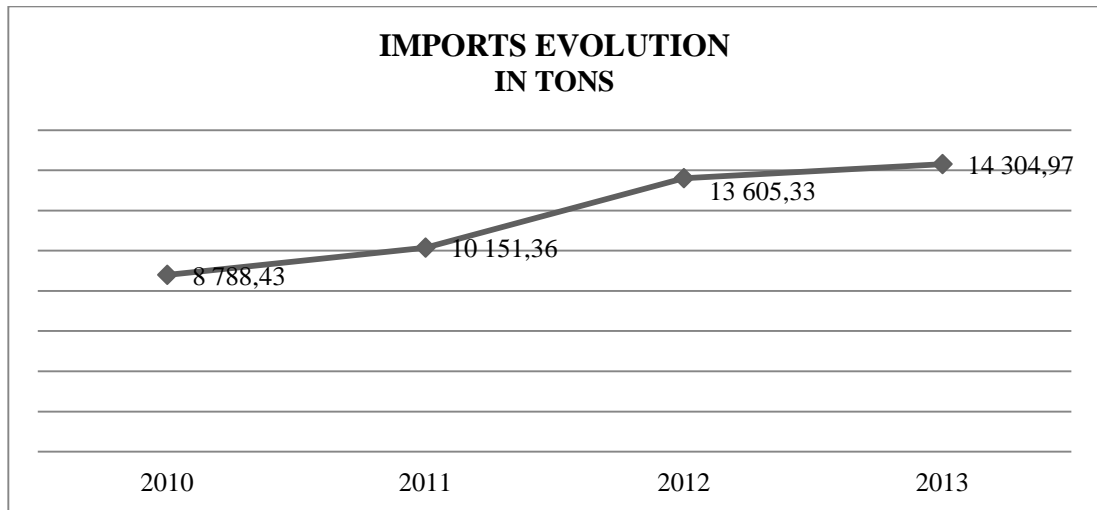
In the table below we can see that exports, with respect to metric tons, are just 4.42% of all metric tons imported in recent years. As for the FOB value, we see that the value of exports is only 2.67% of the import, in other words

**Table 7:** Comparison Chart

YEAR	EXPORTS		IMPORTS		COMPARISON EXPORTACIONES / IMPORTACIONES	
	TON.	FOB	TON.	FOB	TON.	FOB
2010	160	\$ 275,78	8 788,43	\$ 17 797,51	1,82%	1,54%
2011	219,02	\$ 361,56	10 151,36	\$ 20 650,68	2,15%	1,75%
2012	503,52	\$ 645,02	13 605,33	\$ 30 433,49	3,70%	2,11%
2013	1 191,38	\$ 1 477,21	14 304,97	\$ 34 179,85	8,32%	4,32%
<b>TOTAL</b>	<b>2073,9</b>	<b>\$ 2 759,57</b>	<b>46 850,09</b>	<b>\$ 103 061,53</b>	<b>4,2%</b>	<b>2,67%</b>

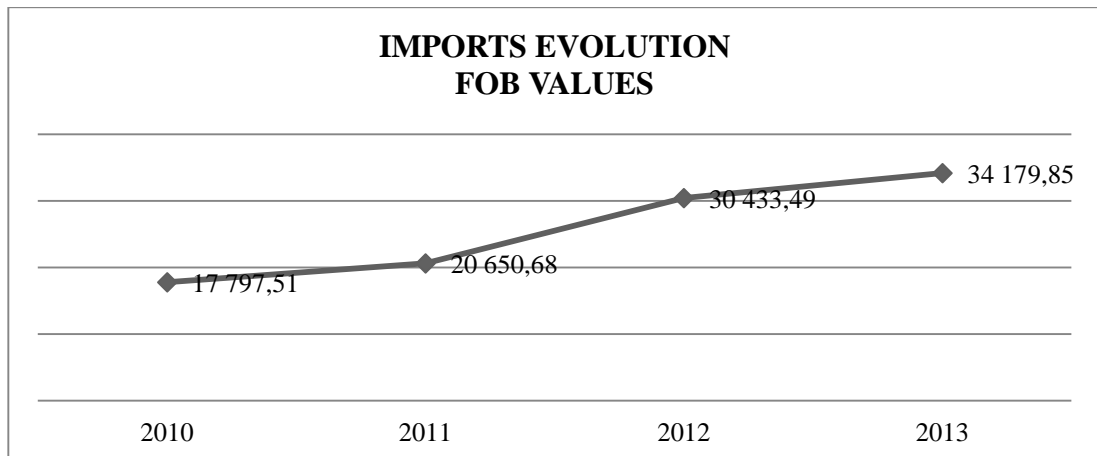
Source: Central Bank of Ecuador

**Graph 3:** Imported tons Evolutions – Subheading 2309902000



Source: Central Bank of Ecuador

**Graph 4:** FOB Evolution Values imported –Subheading 2309902000



Source: Central Bank of Ecuador

### **2.4.1 Main Importing Companies in Ecuador**

The main reasons we have to import are the differences in production costs and the technological gap compared to other countries that offer profitable alternatives. Importing allows the company, in many cases to compete with lower prices and higher quality. This, of course, depends on our supplier. It is recommended that our supplier is a manufacturer, since it means lower cost which will generate higher returns.

When we analyze the major importers list, we note this is considerably larger than the exporters list, we notice it just as many companies featuring on exporters list also appear on importers list, as in the case of Molinos Champions SA, Dolca SA, ECUADPREMEX SA, FARMAVET CIA LTDA., among others.

The information we now analyze suggests it is likely many of these companies made strategic alliances with foreign companies in order to reduce costs, improve efficiency and, as mentioned before, diversify products to cover all their customers' needs.

We will include in Annex 1 a complete list of major importers since 2010 to date.

### **2.4.2 General features on imports by supplying country**

Ecuador is an animal use premixes producer, exporter and importer. As we can see our main supplier is the United States, from that 38.56% of our imports, this is followed by Colombia in second place with 17.85% and thirdly Brazil with 11%. As we related FOB tons number price we notice price per ton coming from Colombia is 23% lower than the price per ton coming from United States. To this we add the fact that import costs when the destination is Colombia are much more convenient than when goods are brought from the United States.

Also we found other use animal premixes suppliers, like: Spain (5.74%), China (4.60%), Mexico (4.66%), Belgium (2.87%), Panama (2.87%), among others.

We note that in most cases FOB price per ton is much more convenient than United States. However, it is necessary to consider importing premixes composition because it does not always have the same components and technology, being this a determining factor for its price.

**Table 8:** Main countries from which products are imported under subheading 2309902000

NANDINA	NANDINA DESCRIPTION	COUNTRY	TONELADAS	FOB - DOLAR	CIF – DÓLAR	% / TOTAL FOB - DOLAR
2309902000	PREMEZCLAS	U.S.A	4 790,22	13 176,86	14 193,62	38,56
		Colombia	2 742,27	6 100,53	6 232,35	17,85
		Brazil	1 855,57	3 757,18	3 988,78	11
		Spain	1 198,30	1 961,23	2 155,77	5,74
		China	1 154,42	1 600,25	1 762,88	4,69
		Mexico	771,3	1 591,67	1 715,08	4,66
		Belgium	270,57	979,17	1 067,94	2,87
		Panamá	119,94	978,04	1 009,69	2,87
		Chile	268,65	883,6	908,18	2,59
		U.K	260,71	758,41	814,66	2,22
		Germany	167,88	593,24	633,97	1,74
		Netherlands	255,75	543,36	580,53	1,59
		Peru	100,88	380,72	386,01	1,12
		Italy	45,4	244,85	262,31	0,72
		France	98,11	236,72	257,91	0,7
		Argentina	128,01	134,57	144,99	0,4
		Malaysia	14,01	61,79	65,76	0,19
		Austria	19,48	58,66	65,07	0,18
		Greece	17	55,57	58,77	0,17
		Canada	4,16	37,62	39,76	0,12
		Singapore	18,28	26,94	29,28	0,08
		South Korea	3,75	10,86	11,87	0,04
		Australia	0,05	4,7	5,62	0,02
		New Zealand	0,1	1,98	2,85	0,01
		Taiwan	0,23	1,44	1,47	0,01
<b>GENERAL TOTAL:</b>			<b>14 304,98</b>	<b>34 179,85</b>	<b>36 395,02</b>	<b>100</b>

**Source:** Central Bank of Ecuador

### 2.4.3 United States exports profile analysis HS Code 230990

Being our subject analysis animal use premixes imports from USA, it is convenient to study the profile of exports from this country.

Then we are going to make an analysis of global export statistics of this country through the TradeMap tool.

**Table 9:** United States Participation in World Exports.

Exporters	Exported Value 2009	Exported Value 2010	Exported Value 2011	Exported Value 2012
World	9.039.868	10.286.017	12.501.084	13.287.911
United States	959.662	1.062.094	1.257.122	1.302.709

Source: TradeMap

**Table 10:** United States World Exports under HS Code 230990

Code	Product Description	Indicadores comerciales							
		Exported Value 2012	Comercial Balance 2012	Annual Growth Rate in value between 2008-2012 (% p.a.)	Annual Growth Rate in quantities between 2008-2012 (% p.a.)	Annual Growth Rate in value between 2011-2012 (% p.a.)	Annual Growth Rate of the world imports between 2008-2012 (% p.a.)	Exporting World Participation (%)	Exporting World's Ranking
230990	Other preparations of a kind used in animal feeding	1302709	758056	8	-13	4	10	9,8	2

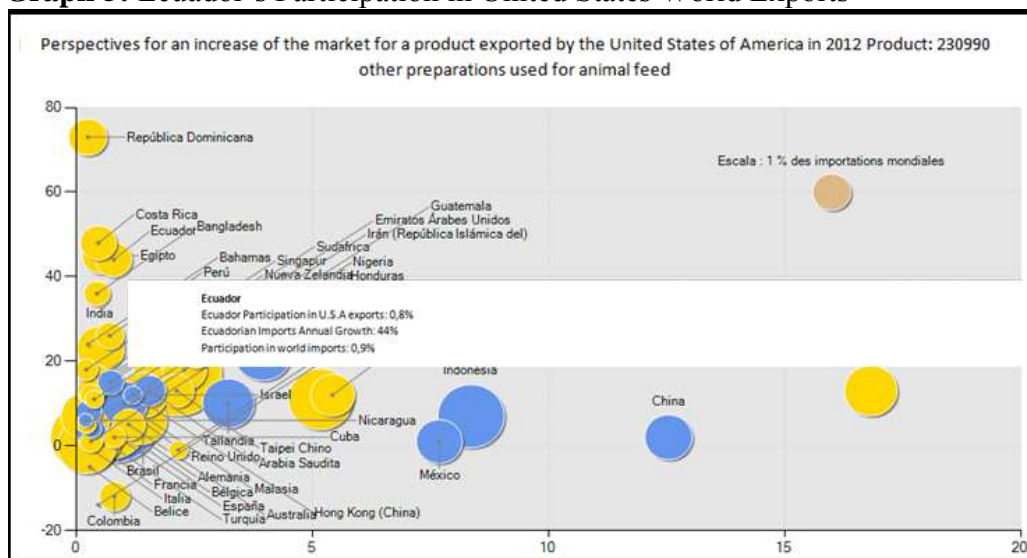
Source: TradeMap

Exporting average annual growth of this worldwide item is 14%. It clearly indicates us a substantial increase in demand for the products in HS Code 230990.

United States exports significant values of this product. Globally it ranks second on these exports and their participation is 9.8%.

Entering more into this we see that it presents an annual growth since 2008 from 8% in value, and -13% in quantities, which makes us understand that their products' value has increased over time.

**Graph 5:** Ecuador's Participation in United States World Exports



**Source:** TradeMap

In the graph the bubbles size is proportional to partner country share in world imports. Ecuador has a share in world imports of 0.9%, and 0.8% of exports from USA. As the graph indicates our imports from the United States grows by 44% annually.

We are not one of the major trading United States' partners on animal use premixes. However, the growth in our annual imports reflects the great importance of USA for the development of this business in our country.

According to TradeMap statistics, United States is the first importer and second exporter of goods. According to Javier Ponce Leiva (2005), one of the most important United States' features in its trade policy and always searching for foreign markets opening, the country has achieved to reduce trade barriers, making it international business global attraction center, this answered the reason of its important role in international trade and is quite great factor when we seek a commercial partner.

Additionally we note that the United States is internationally known as one of the most demanding countries in terms of quality. In this country the Technical and Quality Standards required equally to domestic and imported products, especially in this field, we find inspectors for the Animal and Plant Health Inspection Service, responsible for animal protection and welfare and also for plant health. Products of this type are subjected to rigorous quality control, which generates a lot of confidence in consumers.



## 2.5 CONCLUSIONS

At the end of 2013 Ecuadorian exports became 5 times greater than they were in 2010, reflecting a significant development of the country in products merchandising included in this HS Code, the main export destination is Panama.

The difference in trade balance between imports and exports for this HS Code is abysmal, imports far exceed exports. Especially in recent years imports levels have increased exports in percentages.

Many exporters are also importers, that because many of these companies made strategic alliances with foreign companies in order to reduce costs, improve efficiency and increase its product portfolio in order to meet all the needs of its customers.

The key to profitability is importing products directly from manufacturers rather than another provider; this usually guarantees quality and better price.

Most of our imports come from USA; this country covers almost 9.8% of the total exports of this kind worldwide. Ecuador's imports from this country increased by 44% annually, which clearly reflects USA's growing importance in order to develop this business in Ecuador.

USA-origin products create satisfaction in who use them. Considering the risks involved with premixes misuse, it is important consumers feel satisfied knowing its origin. It assurances and guarantees that provide the product considerably facilitate its commercialization.

### 3 CHAPTER III: Harmonized System Code 2309902000

#### 3.1 Introduction

All imported and exported goods should be classified for customs purposes; a classification code in each product is assigned. This code determines their customs obligations in national taxes collecting, permits and prior certifications, as well as being useful in matters of trade statistics, quantitative restrictions supervision and tariff preferences application.

According to World Trade Organization and World Customs Organization most countries classify goods international exchange with the called Harmonized System (HS), a system whose function is to describe and codify the before mentioned goods. This entered into validity in 1988 and it was created to develop an international nomenclature and a uniform classification of products..<sup>6</sup>

In this harmonized system we find approximately 5,000 goods groups, each of them legally and logically structured by a six-digit number. This system is handled through well defined rules which allow a fairly clear traded internationally products classification.

This system allows us to define the harmonized code we study, although this has ten digits. The first six digits correspond to the international classification system. From the seventh, the numbers depend on the country, as the seventh and eighth correspond to items used in Andean Community of Nations (CAN).

The ninth and tenth correspond to national harmonized code, it depends on each country denomination.

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<sup>6</sup> Organización Mundial del Comercio. (200-). ENTENDER LA OMC: LOS ACUERDOS. Página oficial OMC. Fecha de consulta: 2 de febrero del 2014. URL: [http://www.wto.org/spanish/thewto\\_s/whatis\\_s/tif\\_s/agrm2\\_s.htm](http://www.wto.org/spanish/thewto_s/whatis_s/tif_s/agrm2_s.htm)

Related to mentioned above and focusing on our discussion topic, we could say that today it has been developed commitments to access markets in agriculture field, in order to promote and protect it, it has been possible to eliminate certain import bans previously applied tariffs and dedicated to these products have been reduced and be removed in some cases.

What is very interesting and convenient is that tariffs on agricultural products have consolidated basis, we mean, they are subject to WTO commitments and its increase could be very difficult. (World Trade Organization)

The agricultural sector and the products it includes, in order to meet all requirements to achieve a suitable animal nutrition to ensure consumption, quality and animal health, it has developed premixes, designed for production animals and livestock (cattle) intended to increase its production capacity and to maximize the efficiency of feed.

Like all international goods exchange, premixes enter our country under a tariff classification which we will analyze in detail below

## **3.2 Harmonized System Code 2309902000**

Harmonized System Code is a regulator of international trade, being an instrument which provides statistics and serves as a tool for Foreign Trade Operator to determine imported or exported classification of goods.

Levels contained in national tariff are: 0%, 5%, 10%, 15%, 20% and 30%, these scales have been established based on technical criteria such as:

- Greater Degree of processing and / or final agricultural products: 15% to 20%
- Semi-finished products, raw materials and supplies: 10%
- Raw materials and supplies, capital goods, 5% to 0%

### **3.2.1 Analysis of Chapter 23**

This chapter considers Residues and waste from the food industries; prepared animal feed.

#### **3.2.1.1 Reference to Section IV**

Section IV consists in "Products from the food industries; beverages, spirits and vinegar; tobacco and tobacco produced substitutes."

It covers nine chapters from 16 to 24 as we will detail below:

16. Preparations of meat, fish or crustaceans, molluscs or other aquatic invertebrates.
17. Sugars and sugar confectionery.
18. Cocoa and cocoa preparations.
19. Preparations of cereals, flour, starch or milk; pastries.
20. Preparations of vegetables, fruit, nuts or other parts of plants.
21. Miscellaneous food preparations.
22. Beverages, spirits and vinegar.
23. Residues and waste from food industries; prepared animal feed.
24. Tobacco and tobacco substitutes, processed.

In the explanatory notes on the General Rules for Tariff Implementation law of general import and export taxes, we will find that "the titles of sections, chapters and sub-chapters are indicative only, as the classification is determined according to the terms of the harmonized codes and notes section or chapter "this will be the item case analyzed, since although the rating titles have tried to be as concise as they were possible, but given the items diversity it has been almost impossible to achieve list them all or list them in such titles.

### **3.2.2 Introduction to Chapter 23**

Animal feed products are enclosed in Item 23 which are obtained by processing vegetable or animal materials and for this reason have lost original material essential features, except vegetable waste, residues and vegetable sub products of such.

#### **Description Code**

23.01 flours, meals and "pellets", meat, meat offal, fish or crustaceans, mollusks or other aquatic invertebrates, unfit for human consumption; pork rinds

23.02 bran and other residues from the sifting, milling or other cereals working

23.03 residues of starch manufacture and similar residues, beet pulp, sugar cane bagasse and other waste of sugar manufacture, dregs and waste brewing or distilling, including pallets

23.04 oilcake and other solid residues resulting from the extraction of soybean oil (soy), whether or not ground or "pellets"

2305.00.00 cake and other solid residues resulting from groundnut extraction oil (peanut), whether or not ground or "pellets"

23.06 oilcake and other solid residues resulting from the extraction of vegetable fats or oils, whether or not ground or "pellets", except those of harmonized code

2307.00.00 wine lees and dregs; crude tartar 5

23.08 Vegetable materials and vegetable waste, vegetable and by-products residues, even in "pellets" of the kind used in animal feeding, not specified or included elsewhere

23.09 Preparations of a kind used in animal feeding

### **3.3 Analysis of HS Code 2309902000**

Classification is important because it allows having a common worldwide identifier, regardless the language, it also allows the same good to be encoded identically in import tariffs in all countries, for this the classification first six digits are used.

2309.90 - Other:

2309.90.1 - - Balanced Food for fish

2309.90.11 - - - From aquarium

2309.90.19 - - - Other

2309.90.20 - - Balanced Food for birds

2309.90.30 - - Prepared feed with molasses or sugar

2309.90.4 - - Premixes for the manufacture of complete or complementary foods:

2309.90.41 - - - Containing antibiotics or vitamins, even mixed together

2309.90.49 - - - Other 5

2309.90.90 - - Other

### **3.3.1 HS Code 2309902000 Disaggregated**

Harmonized code suggested in this answer sheet is used for finding information purposes. It is important to mention that a harmonized code covers many products, consequently the statistics provided in this data sheet - market reflect the universe of these products. The competent authority for the process of harmonized code classification is the National Customs Service of Ecuador.

The information contained in Imports Tariff; detailed in: Sections, Chapters, Harmonized Code, subheadings. Additionally for each subheading it may review its taxes (Customs Duties, VAT, FODINFA and others); Physical Units, Notes and Restriction countries.

**Table 11:** HS Code 230990200 disaggregated

DÍGITOS					DENOMINACIÓN					
1°	2°	3°	4°	5°		6°	7°	8°	9°	10°
23										<b>Chapter:</b> Residues and waste from the food industries; prepared animal feed.
23	09									<b>HS heading of:</b> Preparations of a kind used for animal feed
23	09	90								<b>Subheading of the Harmonized System:</b> Other
23	09	90	20							<b>Subheading NANDINA:</b> Premixes
23	09	90	20	00						<b>National subheading:</b> PREMIXES

**Based on:** model used in Resolution No. 29

According to Resolution No. 59 adopted by the Foreign Trade Committee whose validity began on October 1st, 2012 payable tariff is:

**Table 12:** Tariff HS Code 23099020

Code	Description of the goods	Tariff Rate	OBSERVATIONS
2309.90.20	--Premixes	5	0% tariff until December 31, 2014.

**Fuente:** Resolución No. 59

Normally the payable tariff in case of imported products within this subheading is 5%, however it has been determined that up to December 31, 2014 it will have a 0% tariff.

According to Comex Resolution 116 products under HS 2309.90.20 do not require an INEN's Compliance Certificate.

### 3.3.2 Explanation and description of HS Code 2309902000

Focusing on HS Code 23.09 under the name "Preparations of a kind used in Animal Feed" we will find products used to feed animals that are not specified or included elsewhere. As we saw in previous chapters, the plant or animal matter is subjected to a treatment that will result in the loss of the features' original material, except as regards vegetable waste or by-products of the above treatments.

The products of HS Code 2309.90 are fodder preparations with added sugar or molasses and feed preparations consisting of nutrients. Since the product has no molasses or sugar added ingredients, we are going to analyze other preparations, or those that are used for animal feed nutrient content. These feeds are:

1. Complete feed (daily, rational and balanced diet) nutrients for energy, construction and operation.
2. Complementary feed (feed with beneficial contribution to organic and inorganic substances) "are gotten by concentration and stabilization of wastewaters rich in water soluble elements (protein, B vitamins, salts, etc.) and come from fishmeal and fishoil and marine mammals. Or concentrates obtained by heat treatment of alfalfa juice. ".<sup>7</sup>
3. In order to produce complete or complementary feed. In these preparations we have premixes, which composition is determined by a particular animal product. These can be of three kinds:

- Those which promote digestion
- Those which assure food preservation
- Those which play a supporting role, ie fulfilling the work of a feed supplement.

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<sup>7</sup>Comunidad Andina. *NOTAS EXPLICATIVAS QUE INCORPORAN LA CUARTA ENMIENDA DEL SISTEMA ARMONIZADO*. 25 de julio del 2007. Pág. 137.



Likewise those are classified according to the mix which they are prepared of: meat, offal and other ingredients, or made with flour, starch or grain, can also be sweetened preparations or composed of millet, canary seed, oats and linseed.

In this HS Code are not including:

- a) "Pellets" made of a single material or a mixture of materials which correspond to a determined HS Code, even containing binder (molasses) not exceeding 3% by weight.
- b) Simple mixtures of cereal grains (Chapter 10), flour or cereal flour leguminous vegetables (Chapter 11).
- c) Preparations that because of their nature, purity, relative proportions of different components, manufacture hygienic conditions, and where appropriate, indications on packaging or any other information provided for use, might be used for animal feeding or human (HS Code 19.01 and 21.06, for example).
- d) Waste, vegetable residues and by-products of HS Code 23.08.
- e) Vitamins, including chemically defined, mixed or unmixed, including solvent or stabilized by the addition of antioxidants or anti-agglomerating agents, by absorption onto a substrate or by applying a protective coating, for example, jelly, waxes, fats, etc., provided the amount of such additives, substrates that not exceed the storage or transportation required and also that such additives or coating substrates do not alter the character of the vitamins and make them more suitable particularly for a specific use for general use (HS Code 29.36).
- f) Other products of Chapter 29.
- g) Medicaments of HS Code 30.03 and 30.04.
- h) Protein substances on Chapter 35.

- i) Preparations like antimicrobial disinfectants used on animal feed manufacture in order to combat undesirable microorganisms (HS Code 38.08).
- j) Intermediate products gotten on first extraction and filtration during antibiotics making and their waste, which antibiotics contain usually is less than or equal to 70% (HS Code 38.24).<sup>8</sup>

### 3.4 CONCLUSIONS

HS Code is an important element on international trade; its main function is to determine obligations that must be met at the time of importing and exporting.

HS Code 2309902000 is disaggregating as follows:

Section IV: Food industry products, beverages, spirits and vinegar; tobacco and tobacco substitutes.

Chapter 23: Residues and Waste from Food Industries; prepared animal feed.

HS Code 2309: Preparations of a kind used for animal feed

Subheading 230990: Other

Regional subheading 23099020: Premixes

National subheading (ARIAN) 2309902000

According to tariff classification, items on HS Code 23099020 have a 0% tariff until December 31st, 2014, after this date tariff will be 5% unless this condition is

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<sup>8</sup>Comunidad Andina. *NOTAS EXPLICATIVAS QUE INCORPORAN LA CUARTA ENMIENDA DEL SISTEMA ARMONIZADO*. 25 de julio del 2007. Pág. 138.

spreading. One issue that will be analyzed at the time of costing is the validity issue, a condition imposed to this HS Code.

Fortunately the HS Code under study requires no Certificate of Compliance issued by INEN which greatly facilitates its import. However, goods importing under this HS Code require a prior shipment authorization issued by the Ecuadorian Agency for Quality Assurance, this issue is studied further in the next chapter.

The development of this chapter opens certain inquiries that will be studied more detailed in the next chapter. However, the main issue to consider is profitability in this business, and whether it would be possible to supply market if the products that are currently imported begin to require certificates of compliance and our suppliers are not able to provide such certificates.

## **4 CHAPTER IV: Import Process**

### **4.1 Introduction**

In this final chapter we will refer to every step required to perform this specific import process and we will present the points we should consider in order to import premixes of animal use. As mentioned above, the process to be followed in this case is a bit complex and the logistic steps vary considerably from other conventional import processes. However, this chapter could be an interesting tool for any person who desire to import and want to familiarize with some of the terms, documents and issues that are related to the process.

### **4.2 Importer Registration**

According to information provided by SENA E in order to import it is necessary to get a Taxpayer Registration (RUC) in the Internal Revenue Service (SRI). Once this is gotten, a digital certificate for electronic signatures and authentication will be acquired. Such certificate shall be issued by the Central Bank of Ecuador login to <http://www.eci.bce.ec/web/guest/>.

Once on the website we will select the Certificate Application option. So, we are going to get started by completing the required information and registering our request.

This can also be done through <http://www.securitydata.net.ec/> (Security Data, 2013), we will enter in the same option of Certificate Application and will complete the required data.

As a next step to getting Digital Certificate, we will check into the portal ECUAPASS (<http://www.ecuapass.aduana.gob.ec>). Through it we proceed to update the database, create a username and password, accept user policies and record our electronic signature. As support material will find a demonstration video in the bulletin 32-2012. (Customs Office of Ecuador, 2013)

### **4.3 Negotiation**

#### **4.3.1 Purchase Order**

For all imports to take place, it will be necessary to send a purchase order to the supplier. In this order consists in: the requested merchandise, also quantity, quality, and conditions will be detailed. Once the order form is sent, the provider will respond with a quote price in which according to the previously set INCOTERM, it will cover the costs the importer will be defined. Here the goods and the seller's price is specified, in the next step we will ensure that it is suitable for us as importers.

It is very important to focus on the data entered in this document, because they will be used in the commercial invoice using importer and exporter data. Transportation, loading and unloading port, order date and person to be notified will be specified and also any additional information related to international sales.

Once the quote price is approved by the authorized importer or employee, it enters to the same production process or it proceeds directly to the office if the products are already part of the inventory. The usual method however, is to start premises production at the time the order is entered, these cautions concern the product life and customer requirements.

#### **4.3.2 Incoterms 2010**

According to the International Chamber of Commerce Incoterms "define the responsibilities of buyer and seller companies in the delivery of goods under contracts of sale", so they are terms that define both parties' obligations on respect to costs and risks. Nowadays, Incoterms are part of international trade's everyday language and its presence inside commercial invoices has been made mandatory.

According to International Chamber of Commerce inside Incoterms we find, those involving a direct delivery to the output, we mean a travel by expense and risk to the supplier or seller, they are:

- EXW (Ex Works) Agreed place Factory. Supplier's obligations are until arriving goods are collected in an agreed place. Usually, the agreed place is supplier's factory or warehouse. Obviously, through this incoterm, the greatest risk is assumed by the buyer, for any inconvenience during its shipping to final destination it is going to be his/her responsibility.
- FOB (Free on Board) Delivery will be given on the ship's deck. For river and maritime transport only.
- FAS (Free alongside Ship) Delivery at agreed port once the goods are landed. For river and maritime transport only.
- FCA (Free Carrier) Delivery in agreed place, it can be used any kind of transport and it can be complicated because the points of goods delivery can be many. Its use is very common and sometimes replaces EXW.
- CIF (Cost Insurance and Freight) Seller assumes costs and freight necessary in order to goods reach the destination agreed with the supplier. For river and maritime transport only.
- CPT (Carriage Paid To) Seller pays the goods carriage freight to the named destination. It requires the seller to clear the goods for export in the Customs Office. It can be used any kind of transportation.
- CIP (Carriage and Insurance Paid) Seller covers the cost of major transportation and insurance until the goods are delivered at the agreed point in the destination country. Like Incoterm CPT requires the seller to clear the goods for export.

Those direct delivery Incoterms cause the buyer to assume costs and risks on goods negotiated with the seller. Unlike Incoterms that assume it on arrival, ie, goods are shipping at the risk of the seller to the buyer extent agreed.

- DAT (Delivered at Terminal) Seller makes the goods available to the buyer at the agreed terminal. He/she assumes all costs, including main transport and insurance (non-mandatory).

- DAP (Delivered at Place) Seller makes the goods available to the buyer at a named place in a vehicle ready for unload. The most important feature of this Incoterm is that delivery occurs when a vehicle is ready for unload; it does not include goods release.
- DDP (Delivery Duty Paid) The greatest responsibility on goods shipping lies on the seller, the buyer makes none paper work, because the seller covers any costs until the goods arrive at the agreed point, also it includes payment tax into the seller's obligations.

When we talk about consolidated containers in companies that work with multiple suppliers, it is often used Incoterm EXW (Ex Works), in this way our broker will be in charge of collecting our goods from the desired location for seeking best alternative to ship our goods.

It is common to handle with exclusive containers, and being Ralco International a company with some venues worldwide that has adopted a policy of taking over goods transportation, we are going to use the Incoterm CFR (Cost and Freight). What remains to be done to Ralco Latin America is to contract the insurance. This measure has been taken because under Ecuadorian law, we must purchase insurance from a company based in the country.

### **4.3.3 Payment**

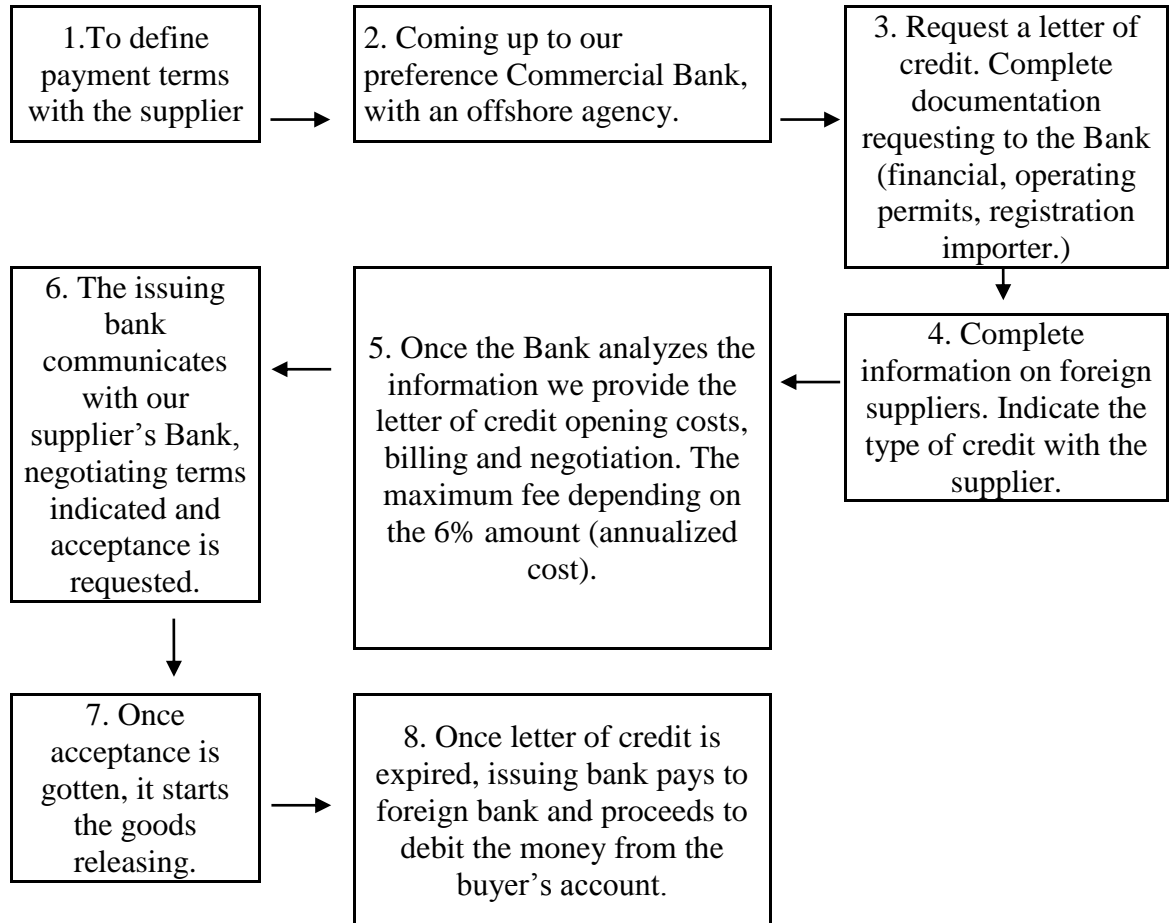
#### ***4.3.3.1 Letters of credit***

According to Central Bank of Ecuador letters of credit guarantee compliance with the obligations of the parties involved to a commercial transaction, ie ensuring the goods payment shipped to the buyer anywhere in the world in accordance with the negotiation terms. It is considered the safest form of payment to pay for international operations.

Several financial offices, as correspondent banks offer this payment service, for goods and services imports, through credit lines granted by international banks. The

bank or financial agent agrees to pay the amount agreed by the buyer and seller, after evaluating the buyer's credit.

**Flowchart 1:** Procedure to be followed - Letter of Credit



**Source:** International Bank of Ecuador

In the case of Ralco, credit note is for 90 days from the date on which the invoice is issued. In these 90 days, clearance times abroad, arrival at the port, customs clearance, logistics at central warehouse, logistics and customer delivery and customer's credit are calculated.

Additionally, it is desirable to take into consideration that there are two kinds of letter of credit, the open ones in which changes can occur during the shipping time and the closed ones in which the initial terms of negotiation are maintained.

If it is the case to request a letter of credit to the International Bank for approximately \$ 50,000, commissions to the bank are as follows:



- Letter of Credit Opening 3.25% (annualized)
- Negotiation 0.50% (Flat, does not vary depending on the amount)
- Supplier's Bank Acceptance Estimated 3.25% (annualized)
- Transportation \$ 20
- Communication SWIFT \$ 30

#### ***4.3.3.2 Other forms of payment***

The letter of credit is the most commonly payment method used due the given guarantee to the seller at the time of trade. However, other payment options also exist.

Among the major we find:

- **Prepayment:** Or prior to the goods delivery. Through the payment in advance the importer makes the payment to the exporter prior to shipment. This payment is a bit risky to the buyer, because the seller couldn't comply with such negotiation as agreed, and not even send the merchandise. However, it is very good for the seller who secures the delivered goods payment. The recommendation is to have a trust relationship with the supplier to adopt this method of payment.
- **Direct Payment:** The most common payment methods for direct payment are check, money order, or transfer. They are normally used when the conditions of payment are cash, current account or consignment. Through this form of payment is the buyer who has the advantage, the supplier will send the goods and wait for the buyer to comply with the payment.
- **Document Collection:** In this case banks are intermediaries for the exchange of securities to cover payments. However, unlike letters of credit, these are not required to pay.<sup>9</sup>

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<sup>9</sup> Cámara de Comercio de Guayaquil. Comercio exterior. Fecha de consulta: 3 de marzo del 2014. URL: <http://www.lacamara.org/website/images/faq/asesoriacomercioexterior.pdf>.

## **4.4 Internal Logistics**

### **4.4.1 Booking**

According to Mendy Lange responsible for Ralco International LLC imports, to book a container inside a ship, it is necessary to contact shipping companies to get a quote. It is always good to apply for two or more quotes in order to find the best option to lower import costs. However, it is highly desirable that, once we find the best option and we agree with the way it works, an annual shipping service contract is made, because the costs are much more convenient.

Depending on Incoterm used, the transport manager will be the "booking" responsible. In the case of Ralco, as handling with CFR terms, we will not be responsible for "booking".

At the moment we analyze the quotes, we have to consider the freight costs and days up to final destination. It will always be more convenient to choose sea freight despite its transit time is longer. Since air freight may be considerably shorter, but in terms of cost it is much more expensive.

Once we decide what quote is best for us, the shipping will provide us a schedule with available dates ships to the required destination. It is important to coordinate production and product's packaging.

#### **4.4.2 Insurance Policy**

According to Superintendency of Banking and Insurance of Ecuador, insurance is a contract whereby one party, the insurer undertakes, against payment of a premium, to indemnify the other party, within the limits agreed, for loss or damage caused by an uncertain event; or to pay a capital or income, if the event specified in the contract occurs.

"The insurance contract is perfected and tested by means of a private document which will run in duplicate and the essential elements that should be stated. Such document is called the Policy; it must be written in Spanish and signed by the parties." (Superintendency of Banking and Insurance of Ecuador, 2013)

Depending on the kind of transport selected, the insurer will offer us a kind of policy for each (air, land or sea). Maritime insurance policy in case of doubts about values, conditions and compensation is attached.

Code and Regulations of Production, Trade and Investment COPCI, Article 74 indicates that the insurance policy is considered "as part of the Declaration. In accordance with Article 110 of the Organic Code of Production, Trade and Investment, the amount paid on account of transport insurance is part of the tax base for foreign trade taxation". However, in Article 110, Organic Code of Production, Trade and Investment we will find "cost of insurance will be part of customs value but insurance will not be a mandatory document required to support customs statement."

In order to get an insurance policy, a corresponding premium CFR 0.5% of goods value should be cancelled.

It should be noted that according to General Law of Insurance, Article 74, insurance contracts in public sector, will be subjected to competitive bidding among insurance companies legally constituted and established in the country.

#### **4.4.3 PackingList**

Packing list is a document closely related to commercial invoice, it details contents of each package. This document details the number of articles containing in a shipment and identifying the goods which are subject to be transported, with customs authorities, carrier, insurance company and international purchaser. It is prepared by the exporter. (Sulser and Pedroza, 2004)

Among the most important data within the packing list we find:

- Seller's name
- Consignee's name
- Product Description
- Number of pieces per product
- Loading's Net weight
- Loading's Gross weight
- Number of pallets

#### **4.4.4 Bill of Lading**

According to COPCI Regulation, Article 2 literal ii Bill of Lading is "a physical or electronic document containing information about the means of transport, number of packages, weight and generic identification of the goods, which is used by any international carrier or transport operator to enter or to leave customs country ".

Bill of Lading is a document that certifies ownership and guarantees the importer the right arrival of any goods to their destination; it works as a contract between the goods' owner and the transport carrier company. It is also called bill of lading, as it works as a receipt given to the shipper for the goods delivered. That document will work as a backup for both the importer and the transport carrier at the time that loading arrives at its destination. It is a mandatory requirement to take out merchandise. Additionally, it is necessary to keep in mind that signing this kind of document is like signing any contract, it is mandatory.

BL form will be included in Annex 4. It includes the following:

- Ship's name and registration
- Loading Port
- Charger's Name
- Consignee's name
- Port of Discharge
- Information about goods (quantity, weight, number of packages, status)
- Freight cost (currency)
- If it is freight prepaid or freight forward (in most cases the carrier sends to remitter the bill for the freight).

Once Bill of Lading is signed, the sender gets the original and the goods' seller gets two copies, one for the selling company files and another one is sent to recipient or purchaser. From this point it is not possible to make any changes to the document. If a mistake is detected, the Bill of Lading will have to be corrected in order to continue with the customs process. This of course will mean trouble in terms of timing and expenses. It is necessary to keep in mind that signing this kind of document is like signing any contract, it is mandatory.

If the sender fills the space "Collect on Delivery (COD)", the carrier must collect the amount of money specified in that space. This is known as "Cash on Delivery" or pay cash. This payment is made to the carrier to deliver the shipment.

In Ralco case, shipping normally requests the following refund relative to BL. For the following costs we have based on an invoice sent by Cegamarketing to RalcoNutritions for a 40 container '.

When a carrier offers his/her services to a client, he/she must purchase or rent a container to a container leasing company. The document used for taking out the container in perfect condition is called Interchange; this indicates the container's delivery and receipt. This is issued by the containers leasing company of and is designed to consignee.

#### **4.4.5 THC (Terminal Handling Charge)**

THC (Terminal Handling Charge) it is an established amount determined by the shipping companies that forces imports customers to cover the concept of handling

goods at the port. The amount payable is fixed in local currency, where cargo is handled. (Chamber Plan of Exports, 2013).

In the case of Ecuador the fixed amount to pay is \$ 135 THC includes loading, unloading and goods' storage.

#### **4.4.6 Cargo handling in Port**

##### **4.4.6.1 Ecuadorian Ports**

In this section we are going to refer to the import process conducted by sea because this is cheaper; therefore, more common than the airway. Road transport in this case is not workable because distances are quite large.

To make the analysis clearer we will use the RalcoNutritions case, the company where I work as imports assistant, in this case our supplier is RalcoNutritions International located in Marshall Minnesota. Being a worldwide exporting company, as noted above, Ralco International is responsible for goods transport through its logistics department. Once the production process is completed the merchandise is picked up by a truck, then it is loaded onto a train to Virginia, up to Norfolk port. In this case ship will head to Ecuador, so we are looking for the most convenient sea port.

In order to handle this issue very clearly let's start this analysis by specifying Ecuadorian ports organization and management. Different ports kinds are:

- Port Authorities
- Port Terminals enabled or private port facilities
- Superintendency Oil Terminal

As we can see in the next picture, the types of ports with the biggest percentage are Superintendencies Oil Terminals. However, if we part to break this share, we will realize that its biggest amount comes out of exports..

In regard to other kind of imports is concentrated in port of Guayaquil, either through port authority or port terminals located in this city.

**Table 13:** International Traffic Movement by Port Class 2012

<b>PORT CLASS</b>	<b>TOTAL (T.M.)</b>	<b>PERCENTAGE PARTICIPATION</b>
Port Authorities	14 365 108	31%
Enabled Port Terminals	5 441 424	12%
Superintendents of Oil Terminals	25 943200	57%
<b>TOTAL</b>	<b>45 749 732</b>	<b>100%</b>

**Source:** 2012 Port Statistics and water transport

**Table 14:** Imports and Exports at the National Port System 2012

<b>PORTS</b>	<b>TOTAL CHARGE (T.M.)</b>		<b>TOTAL (T.M.)</b>	<b>Percentage participation</b>	
	<b>Import.</b>	<b>Export.</b>		<b>Import.</b>	<b>Export.</b>
	Port Authorities of Esmeraldas	662 464	396 7	1 059 164	4%
Port Authorities of Manta	706 914	54 643	761 557	4%	0%
Port Authorities of Guayaquil	5 903 967	4 960 400	10 864 367	36%	17%
Enabled Port Terminals	3 234 753	2 206 671	5 441 424	20%	8%
Autoridad Portuaria de Puerto Bolivar	120 906	1 559 114	1 680 020	1%	5%
Superintendents of Oil Terminals from Balao	1 709 536	20 296 537	22 006 073	11%	69%
Superintendents of Oil Terminals from la Libertad	2 490 726	0	2 490 726	15%	0%
Superintendents of Oil Terminals from El Salitral	1 446 401	0	1 446 401	9%	0%
<b>TOTAL</b>	<b>16 275 667</b>	<b>29 474 065</b>	<b>45 749 732</b>	<b>100%</b>	<b>100%</b>

**Source:** 2012 Port Statistics and water transport

Port of Guayaquil is Ecuador's main port and one of the largest in Latin America, as we saw earlier through this port many imports are shipped. It has a modern infrastructure and despite its geographic distance and depth limitations it has reduced the time and cost processes. Contecon SA Guayaquil, port terminal, is a subsidiary of International Container Terminal in charge of container's management and operations and Libertador Simon Bolivar Port multipurpose terminals. Help provided to the customer, as well as experience, location, routes availability and trained staff, make it the most important port in Ecuador. This port is used by Ralco Nutritions for its imports.

#### **4.4.6.2 Port of Guayaquil Cargo Handling**

Once the goods arrive to the port, our Customs Agent is the only person who can request goods movements, provided by Importer or Exporter authorization check. It will be presented at the port join by Bill of Lading which has to be validated by the shipping company under the importer or exporter's name.

Transfer is requested, by authorized departure letter or CAS, a document containing information which identifies the goods, such as BL number, container number, type of container, and number of packages, weight, and return to the terminal. This will be passed to the transport carrier company for goods' removal depending on the time it is given us to pass CONTECON warehouses. This pass allows trucks to enter without problem to pick up merchandise, pass time must be respected, so we do not want to lose it in which we would to apply for a new pass.

## **4.5 Customs Processes**

### **4.5.1 ECUAPASS**

ECUAPASS is Ecuador's Customs Office operating system, it serves by the form "one-stop" and its main objective is to optimize and integrate foreign trade processes.

Its benefits are:

- Reduce time and transaction costs significantly to carry out foreign trade activities.
- Make authorizations and certifications processing easier in a single point of access via Internet.
- Provide foreign trade operators information on current requirements and ongoing procedures status.
- Immediate availability of records between public institutions involved and possibility of reducing different information registers.
- Encourage cooperation between public institutions involved.
- Make sufficient information available to public institutions to perform optimal control (Customs of Ecuador, 2013).

According to SENAE's official website, ECUAPASS is an electronic tool though which all customs services users and, in general, all foreign trade operators will present



requirements, procedures and necessary documents for conducting foreign trade operations. (Customs of Ecuador, 2013).

In this website the called Customs Import Declaration (DAI) is made. It should be presented by the agent, who with importer's documents, enter the required information Customs Import Declaration (DAI) which will be submitted electronically and physically in cases determined by the General Direction of Customs Service of Ecuador.

Once the customs declaration is submitted, the system will issue a validation number (Endorsement) and the corresponding capacity channel.

If documents sending do not take place in thirty calendar days from the goods arrival date, it will be considered as tacit abandonment, representing a fine for the importer.

#### **4.5.2 Customs Agent**

Under Article 227 of the Organic Code of Production, Trade and Investment customs agent is "the natural or legal person whose license, issued by the General Officer of the National Customs Service of Ecuador, empowers to manage such habitual and for others, the release of goods, having for effect sign customs declaration in cases established by the regulations, being obliged to bill for their services according to the table of minimum fees, that shall be fixed by the General Director of the National Customs Service of Ecuador. "

In order to make Customs clearance of goods is recommended a SENA E Accredited Agent adviser, Customs Declaration may be submitted or presented by the importer, exporter or passenger, by himself/herself or through a customs agent.

This will be established in the Regulation Trade Customs Facilitation Title, Article 64, Book V of the Code Of Production, Trade & Investment, "in cases which import declaration is presented without the participation of a customs agent, declarant must also comply with the requirements and formalities established by the General Director

of the National Customs Service of Ecuador, they shall be in accordance with the applicable in order to be Customs Agent ".

Whoever is the declarant is going to be responsible for the information accuracy contained in the Customs Declaration before Customs Office, regarding with the supporting records and accompanying and needed documents.

#### ***4.5.2.1 Customs Clearance***

"Customs Import Declaration (CID) will be submitted electronically, and physical in cases determined by the General Direction of the National Customs Service of Ecuador. In cases in customs declaration is assigned physical or documentary capacity, this should be completed the same day with the digital transmission of the accompanying documents and support; in the case they can not be submitted electronically. When it is not possible to comply with the specified documents delivery in this Article within a period of thirty calendar days from the goods arrival date, entail its tacit abandonment as provided in COPCI Art. 142, without prejudice on fines imposition, by respective regulatory offense, pursuant to subparagraph provisions, literal d) Art. Copci 193. (Art. 67 Reg. Copci). "(Customs of Ecuador, 2013)

### **4.5.3 Tax payment**

#### ***4.5.3.1 Tariff Value***

##### **4.5.3.1.1 Tariff 0%**

It is an export process in which the payable tariff would depend on the country to which it is imported. At least in many Latin America countries such products pay no tariff.

In Organic Law of the Internal Tax Regime, Article 55, it is established that in imports having 0% VAT rate, we find:

"Certified seeds, bulbs, plants, cuttings and alive roots. Fishmeal and balanced meals, **prepared fodder with molasses or sugar, and other preparations used as animal feed, bred for human consumption.** Fertilizers, insecticides, pesticides, fungicides, herbicides, plant oil used against black sigatoka, veterinary products as well as raw

materials and inputs imported or acquired in domestic market, to produce them, according to the lists by Decree established by the President of the Republic. "

In harmonized code 2309902000 we find animal use premixes or preparations used as animal feed, bred for human consumption, as we might also call them, we will pay a fee of 0% VAT.

For this to apply, it is necessary that the imported product has the registration certificate with the analysis detailed and the certified formula by the MAGAP Agrocalidad department, entities that we are going to analyze further.

In an imports process whose tariff is 0% until December 31, 2014 according to established laws in Resolution 59 issued by the Committee of Foreign Trade, which is further exempt from paying VAT by the Internal Tax Regime Law. The only tax payable in this case is FODINFA; a 0.5% tax rate aims to child development. It is calculated by multiplying CIF (Cost, Insurance and Freight) multiplied by 0.5%.

#### 4.5.3.1.2 Sanitary Registration Obtention

##### Veterinary Products

Registration Veterinary Products Unit by application of the national normative, of the Andean Community and other international standards, records and controls products for veterinary use, in order to ensure safety, quality and efficacy for the prevention and disease control of animals and pets. (Agrocalidad, 2013)

We can find in Agrocalidad website their User Manual; so, the process for Livestock Inputs Registration from page 51 is detailed. The following are the sections that we must consider to import the product.

#### **Sub process Livestock Inputs Registration**

#### **Manufacturers, formulators, exporters, importers and marketers of veterinary products registration requirements**

- Application addressed to AGROCALIDAD Executive Director.
- Original record according to Decision 483 of the CAN (ANNEX 38).

- Custom Proof of payment in accordance with the provisions of the current rate of AGROCALIDAD.
- Fee: \$ 690.00.
- Estimated processing time: 90 business days.
- Legal representative of veterinary products companies registration requirements
- Application addressed to AGROCALIDAD Executive Director.
- Original Certificate Company Registration. (Record was obtained in previous process)
- Legal representative ID card copy
- Updated designation copy.
- Estimated processing time: 10 business days.
- Fee: \$0

### **Veterinary products registration requirements**

- Application addressed to AGROCALIDAD Executive Director.
- Dossier according to annex stated in decision 483 of the Andean Community signed by the technical manager (ANNEX 33, 34 and 35).
- Join the original file and a copy (total 2 files). A dossier referring to product analysis, bibliography, compounds, safety sheets, studies done, etc.
- Analysis of finished product quality at AGROCALIDAD- Tumbaco Laboratory (ANNEX 36).
- Fee: \$ 420.00.
- Custom Proof of payment in accordance with the provisions of the current rate of AGROCALIDAD.
- Estimated processing time:
  - Quality Analysis 20 business days.
  - Registration 90 business days.

Inside this Manual we also find processes requirements that could relate to this import process such as:

- Veterinary products reevaluation requirements.
- Veterinary products extensions and modifications records requirements.
- Veterinary products free sale certificates issuance requirements

- Veterinary products statement records issuance requirements

It is very important to point out, these records costs may not charge to import costs as these ones will not be able to use as a single process. Instead they enabled the company to import for a long period of time.

#### **4.5.3.1.3 Import permit**

Every time we perform an import process to obtain this permit will be required. In Agrocalidad User Manual we find further information.

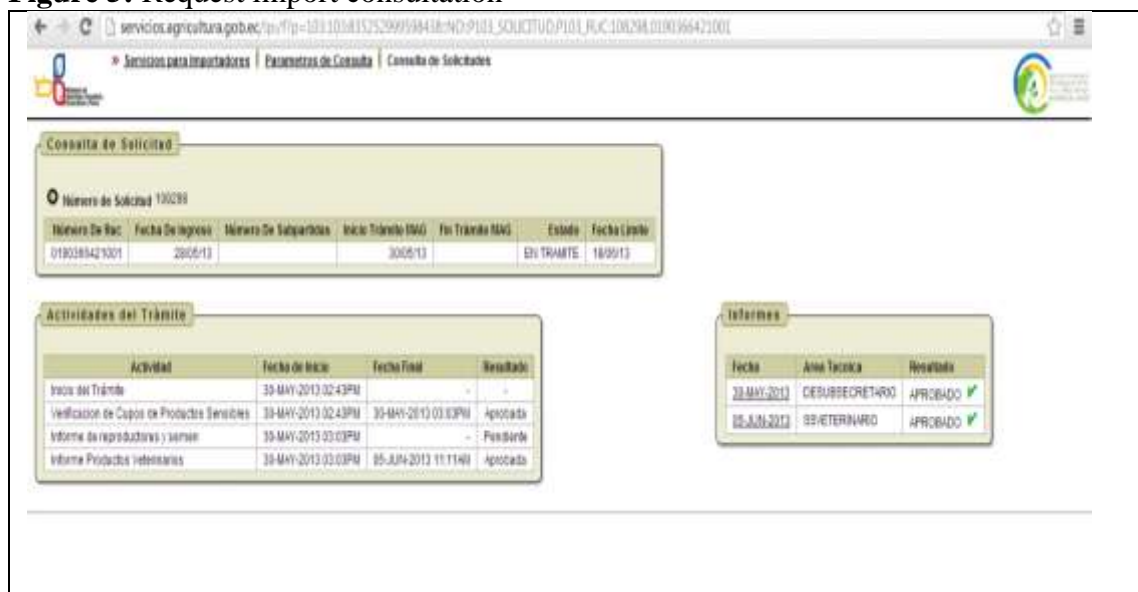
The following is the corresponding section:

Veterinary use import permits requirements:

- Application addressed to AGROCALIDAD Executive Director, signed by natural person or legal representative (if legal person).
- Application Form for Agricultural Products Imports
- <http://www.magap.gob.ec:8080/lpi/f?p=103:101:4428649492890616>
- Note Order (original and 2 copies).
- Quote Invoice (2 copies).
- Original registrant's authorization letter to import to third parties as required.
- Custom proof of payment in accordance with the provisions of AGROCALIDAD's current rate.
- Fee up to 20 TM \$ 10, up from 20.1TM to 100TM \$ 25.00. For each additional 100 TM \$ 0.05
- Estimated processing time: 4 business days.

As soon as the permit is delivered at the single point of contact for processing, it appears in MAGAP's system page (<http://www.magap.gob.ec/>) in which you can track it.

**Figure 5:** Request import consultation



**Source:** www.magap.gob.ec (Import request RalcoNutritions)

Once the permit is approved by Agrocalidad’s Secretary as well as Veterinary Assistant Secretary, as it appears on the image, it is handed over to Agrocalidad’s Technical Director of Food Safety and it may withdraw the permit. As we are in Cuenca we will require a company’s representative to collect the permit.

Through the SENA’s Bulletin No. 74 it was indicated that the International Trade Operator Registration issued by Agrocalidad would be included in the single point of contact, “Ventanilla Unica Ecuatorina”, for processing on March Wednesday 5th, 2014 at 10h00. However, to date it has not been implemented this way.

With the permit we can give our approval to proceed with the shipment of the goods. It is very important for us to get this permit before loading to come out. Otherwise, it could present problems with the entities involved, so they could even hold the loading and re-embark claiming the imported product is not suitable for animal consumption.

#### 4.5.3.1.4 Reference to Entities Involved

##### 4.5.3.1.4.1 MAGAP - Ministry of Agriculture, Livestock, Aquaculture and Fishing.

MAGAP’s official website (www.magap.gob.ec) provides comprehensive information about the institution. MAGAP is the Ministry of Agriculture, Livestock,

Aquaculture and Fishing, this institution aims to control management of agricultural, livestock, aquaculture and fishing production in our country. The MAGAP seeks to promote the activity of these sectors in order to increase their growth and development, continually encouraging productive activities in general.

MAGAP aims to:

- Ensuring food security in our country
- Promoting growth and equitable development.
- Adding value to economic efficiency, social equity, environmental sustainability and cultural identity. (Ministry of Agriculture, Livestock, Aquaculture and Fishery, 2013)

#### ***4.5.3.1.4.2 Agrocalidad***

Ecuadorian Agency for Agro Quality Assurance - AGROCALIDAD seeks to consolidate as the Sanitary Authority, Plant and Food Safety to contribute to sustainable development of productive resources in Ecuador.

Agrocalidad will be responsible for defining and implementing policies about regulation and control of national agriculture productive activities, backing itself for national and international standards, in order to protect and enhance agricultural production, implementation of food safety practices or warranty food, as well as inputs quality control, support for public health and environment preservation, incorporating private sector and other economic agents for plans, programs and projects implementation.

In this under study case, Agrocalidad will be responsible for verifying the safety or inability to damage premixes animal use, same to be used in feeding. While the application is made through MAGAP website, it will be up specifically to Agrocalidad department to approve or suspend an import permit, these to be registered through them. It will be its authorities responsible for verifying that all permits products comply with the appropriate regulations. It is very important that products presentations are registered; and, also both the FOB price as products total net weight

match the import documents. (Ecuadorian Quality Assurance Agency of Agriculture, 2013)

#### **4.5.4 Required Documents**

On official website of the national customs service ([www.aduana.gov.ec](http://www.aduana.gov.ec)), Customs Import Declaration accompanying documents through ECUAPASS are:

Accompanying documents:

"Accompanying documents are those called for prior checking, must be processed and approved prior goods shipment. They must be submitted, physically or electronically, together with the Customs Declaration, as required". (Customs Trade Facilitation Title Regulation, Code of Production, Trade & Investment Book V, Art. 72, 2011)

In the case of imports, the documentation required is:

- Approved application for Agricultural Products Imports
- Imported products notarized certified copies registration.

Supporting documents

"The following shall constitute the information basis from the Customs Declaration at any regime. These original documents, either physical or electronic, should stand in declarant's or his/her customs agent archive at the time of Customs Declaration submission or transmission and he/she will assume as determined by law. (Customs Trade Facilitation Title Regulation, Code of Production, Trade & Investment Book V, Art. 73, 2011)

Commercial Invoice

Control and quality certificate

SENAE Documents or Regulatory Body International Trade consider necessary.

Documents sent to agent when importing such products:

- Original Bill of Lading (3 copies)



- Bill of Lading (not negotiable) (3 copies)
- Insurance Policy
- Commercial invoice
- Packing List
- Certificate of origin (as a qualifying for tax exemption)
- Certificate and quality control of each product
- Export license

As mentioned above, once Customs Declaration is submitted, the system will issue a validation number and a capacity will be designated. (Customs of Ecuador, 2013)

#### **4.5.5 Inspection**

Once the payment of taxes on foreign trade through DAI is completed, a type of capacity is allocated.

Defined in Article 140 of the Organic Code of Production, Trade and Investment as the act of tax assessment by the Customs Administration, that is made by electronic, physical or documentary about the origin, nature, quantity, value, weight verification, measurement and tariff's goods classification.

Capacity types are:

- **Automatic Inspection**

"It is a sending type that is made by Customs Declaration electronic validation through the computer system with the implementation of risk profiles established by the National Customs Service of Ecuador.

Imports and exports of goods that require prior control documents are excluded from the application of this mode of dispatch, if they are not electronically submitted, as well as those goods imports and exports whose inspection is required by other State agencies, according to the provisions of the relevant legislation. "(Art. RCOPCI 80, 2011)

- **Electronic Inspection**

"It consists in verifying Customs Declaration and / or its accompanying documents and supporting information contrasted with the record registered in National Customs Service of Ecuador computer system, in order to determine the correct foreign trade amount of taxes and / or compliance with the customs provisions required under customs regime and declared goods.

This verification is takes place only for electronic or digital documents into the National Customs Service computer system. Imports and exports goods that require prior control documents will be excluded from this sending method application if they are not electronically submitted, as well as those goods imports and exports whose inspection is required by other State agencies, according to the provisions of the relevant legislation. "(Art. RCOPCI 81, 2011)

• **Documentary Inspection**

"It consists in verifying Customs Declaration and its accompanying documents and supporting information contrasted with the record registered in the National Customs Service of Ecuador computer system, in order to determine the correct assessment of taxes on trade foreign and / or compliance with the customs provisions required under the customs regime and declared goods."(Art. RCOPCI 82, 2011)

• **Intrusive and Non-Intrusive Physical Inspection**

"It is goods physical examination, in order to check nature, origin, condition, quantity, weight, extent, customs value and / or tariff classification in relation to the data contained in Customs Declaration and its accompanying documents and support contrasted with the information recorded in National customs Service of Ecuador computer system, in order to determine the correct assessment of taxes on foreign trade and / or compliance with the customs provisions required under the customs procedure and goods declared.

This type of inspection may be made by the intrusive or physical verification of the goods, or through technological nonintrusive inspection systems. "(Art. RCOPCI 83, 2011)

In absence of inspection process issues, Customs Office will arrange release or removal of goods.

#### 4.5.5.1 Demurrage

Demurrage is the generated value for container's detention. This payment must be made to the shipping company for exceeding the free days that were set during negotiations in origin.

Demurrage can also be considered a fine after the deadline negotiated for the goods removal from the container, so it does not allow a container to continue to give use as it is occupied by the goods the importer has not managed to clear.

Demurrage rates vary by the shipping company to provide us the service.

**Figure 6: Demurrage Calculation MAERSK**

DEMURRAGE CALCULATION WILL DETERMINATED BY TYPE OF CONTAINER			
Type of container:	40 dry	Total days:	12
Number of containers:	1	Free time:	21-dic to 20-dic-2010
Date of download:	20-dic-10	Total days of demurrage:	12
Date of return:	01-jan-2011		
Enter your free days:	0	Days applicable to Tariff 1:	5
THE VALUES FOR DEMURRAGE SHOULD BE DEPOSITED IN: CITIBANK ACCOUNT: 0148566011 BENEFICIARY: MAERSK ECUADOR C. A.		Applicable Dates for Tariff 1:	21-dic to 25-dic-2010
		Tariff 1:	\$ 45,00
		Tariff 1 Subtotal:	\$ 225,00
FOR RENEWAL OF STARTING ORDER CANCEL \$ 25 IN: BANCO CITIBANK ACCOUNT: 0148566232 BENEFICIARY: MAERSK ECUADOR C. A.		Days applicable to Tariff 2:	7
		Applicable Dates for Tariff 2:	25-dic to 01-jan-2011
		Tariff 2:	\$ 90,00
		Tariff 2 Subtotal:	\$ 630,00
		<b>TOTAL DEMURRAGE TO BE PAID</b>	<b>\$ 855,00</b>

**Source:** <https://my.maerskline.com>

Demurrages exclude storage terminal charges; these are collected directly by terminal operators to the consignee. This is in order to store the importer loading (Maersk, 2013).

Charge storage payment is done once storage is removed (payment is directed to Contecon warehouse when is by sea), this is an imports fixed cost, regardless of whether this is sea shipping or air cargo. However, demurrage payment is a variable cost and is done when goods are removed after days off granted by the shipping company are compliance.

It should be noted that policies and rates both as storage demurrage vary by shipping company.

#### **4.5.5.2 National Mobilization**

In order to transport the loading, it is necessary to hire a licensed transport company. It shall specify the carrier's name in the granted pass, as mentioned earlier the pass shall specify a time for the cargo vehicle entering the warehouse and perform the corresponding removal.

##### **4.5.5.2.1 Customs Regime**

A customs regime is a form of import (and export) oriented to give a specific customs destination to goods; the Customs Regime is recorded in DAI.

The most common and used are:

- Import to Consumption (Regime 10)

"It is the customs regime in which goods imported from overseas or from a Special Economic Development Zone can move freely within customs territory, in order to remain there permanently, after duties and taxes import payment are done, as well as charges and penalties if there, and compliance with formalities and customs obligations." (Art. COPCI 147, 210)

Importer must confirm imported products comply with all requirements and rules determined by this kind of regime.

In this regime, taxes payment is a bit more; so, it is more convenient than customs warehousing regime (regime 70) for storage costs incurred.

Regime for consumption or regime 10 is the most common system.

- Customs Warehouse (Regime 70 public and 71 private)

"In which imported goods are stored by a given period under Customs Office control in an authorized and recognized place for this purpose, duties, taxes and surcharges free" (Art. 152 COPCI, 2010)

When we are working with this regime goods remain in the designated deposit taxes and surcharges free, which makes it useful because it gives the importer an opportunity to nationalize goods according to customer or market needs.

However, this regime must be used as an exception, because storage costs are quite high and every time a part of a load is cleared, a different Customs Declaration will take place, which means an additional cost for each procedure performed by the Bonded Agent.

We also find another kind of regimes as following:

- International Postal Mail Traffic and Courier - (Regime 91)
- Border Traffic - (Regime 92)
- Free Trade Zone - (Regime 93)
- Customs Transit - (Regime 80)
- Temporary Import to Re-exportation in the same state. - (Regime 20)
- Temporary Importation for Active upgrading - (Regime 21)
- Conditional Refund of Taxes (Drawback) - (Regime 53)
- Industrial Customs Deposit - (Regime Code 72)
- Free and Special Stores - (Regime 73)
- Replacement with Tariff Privilege - (Regime 11)
- Duty Free - (Regime 90)
- Maquila Regime - (Regime 74)
- International Fairs Regime - (Regime 24)

## **4.6 External Logistics**

### **4.6.1 Storage**

Storage is the proper way to maintain a particular product in stock, as determined by the nature of it. There are products that may be stored for long periods with zero deterioration and there are other products whose storage period is short because of their perishable nature, as is the case for most agricultural products.

According to the product, a specific storage system is needed. Stored in a cool, dry place, away from direct sunlight place, keeping the container tightly closed, is recommended for this kind of products.

It is also recommended storage is given in strategic locations for the company in distribution channels, (Vega, 1985) this mainly, as a way to save time, as well as to coordinate supply and demand in its best. A strategic storage usually reduces logistics costs and increases business efficiency. A transport Km has a specific value, the more

Km's required to transport our products to their final destination, the greater the value of our logistics costs and therefore lower the profitability generated by these products.

#### **4.6.2 Products Reception**

Once the output is authorized and transportation contracted, it is important that the Warehouse Manager count with appropriate documents supporting the merchandise which will be received. Usually the packing list or purchase order will be supporting documents to receive this merchandise.

Subsequently goods received will be entered into the company's inventory. Those goods are recorded according to the procedure established on Company's Inventory Control System. In the case of Ralco Nutritions inventory system used is also known as FIFO or First In, First Out. The first items entered into inventory are the first to be sold. What the company is looking to this system is a better economic performance and adequate quality control of its products. Being animal use products with a lot to climate sensitivity and over time it is important that as providers we ensure the product will be received by our customers.

#### **4.7 Imports Costs**

According to accounting department in order to get product cost. Expenditure to be considered for importing a 40 foot container weighing 17294.54 kilos will be:

**Table 15:** Imported product costing

CONCEPTO	VALOR KILO	DESCRIPCIÓN
<b>FOB VALUE</b>	<b>\$ 2,42</b>	Value per Kilo + domestic freight charges to place the load in the mode of transportation to take them to their final destination.
<b>FREIGHT</b>	\$ 0,38	Value for International Transportation
<b>INSURANCE</b>	\$ 0,01	0,5% from the value per kilo
<b>CIF</b>	<b>\$ 2,81</b>	(FOB + FREIGHT + INSURANCE)
<b>Payment for Customs Clearance</b>		
<b>ADVALOREM</b>	\$ 0	(Fee charges to goods) Variable percentage applied on CIF. Tax administered by the Customs of Ecuador.
<b>FODINFA</b>	\$ 0,014	(Development Fund for Children) tax administered by the INFA. Corresponds to 0,5% of the CIF Value.
<b>SAFEGUARD</b>	\$ 0	Duty applied for temporary restricted goods.
<b>ICE</b>	\$ 0	(Special Consumption Tax) Administered by the SRI.
<b>IVA</b>	\$ 0	(Value Added Tax) is up to 12% of the sum of CIF + ADVALOREM + FODINFA + ICE + SAFEGUARD
<b>CIF + TAXES</b>	<b>\$ 2,82</b>	
<b>Agrocalidad Permit</b>		
Entering the process	\$ 0,001	
Processing authority	\$ 0,001	
<b>TOTAL</b>	\$ 0,001	Kilo value of a total of \$25
<b>THC</b>	\$ 0,008	Kilo Value of a total of \$135 for Terminal Handling Charges
<b>Storage payment CONTECON</b>	\$ 0,008	Storage payment CONTECON \$0.01 (reception + colocation of container seals + weighing container + storage) for a total of \$133.60
<b>Stowage service</b>	\$ 0,015	Kilo value of a total of \$260
<b>Internal Mobilization</b>	\$ 0,014	Kilo value of a total of \$250
<b>Customs Agent</b>	\$ 0,017	Kilo value of a total of \$300
<b>Loss expenses</b>	\$ 0,000	
<b>ISD 5%</b>	\$ 0,140	Kilo value of a total of \$2.418,72
<b>COST PRICE</b>	<b>\$ 3,03</b>	

The sum of all these values is prorated for the amount of imported goods, thus obtaining the total product cost, an approximately 35% profit margin will be added to determine the value at which it can be marketed.

The above detailed process costs may vary according to the policies and terms of negotiation that manages the company.

One of the most appealing aspects on premixes animal use importing is its 0% tariff, until December 31st, 2014 and is exempt from paying VAT, which ensures attractive returns for the company that sells it. Profitability marketing these products is 35%.

It was considered what would happen if the case of finishing validity in Resolution 59 the tariff to be applied will be again 5%, and if these products would no longer be exempt from VAT:

**Table 16:** VAT and Tariffs Application.

	<b>Scenario 1</b>	<b>Scenario 2</b>
<b>FOB</b>	\$ 2,420	\$ 2,420
<b>FREIGHT</b>	\$ 0,380	\$ 0,380
<b>INSURANCE</b>	\$ 0,010	\$ 0,010
<b>CIF</b>	\$ 2,810	\$ 2,810
<b>ADVALOREM</b>	\$ 0,000	\$ 0,141
<b>FODINFA</b>	\$ 0,014	\$ 0,010
<b>SAFEGUARD</b>	\$ 0,000	\$ 0,000
<b>ICE</b>	\$ 0,000	\$ 0,000
<b>IVA</b>	\$ 0,000	\$ 0,355
<b>CIF + TAXES</b>	\$ 2,824	\$ 3,316
<b>MISCELLANEOUS</b>	\$ 0,204	\$ 0,204
<b>TOTAL KILO</b>	\$ 3,028	\$ 3,519

**INCREASE 16%**

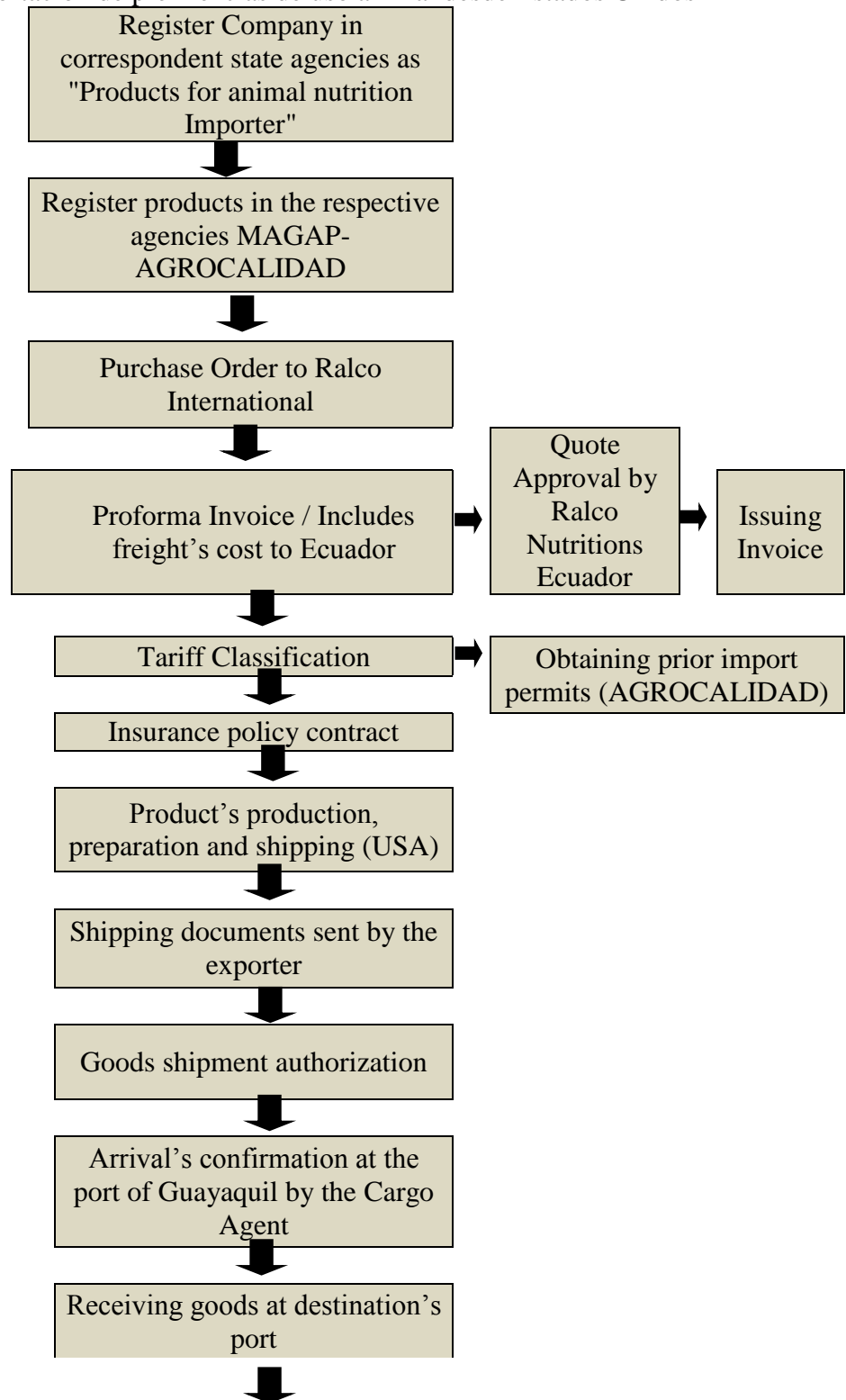
As we can see, a 16% product value increase took place. Considering that most of the Ralco products are 20% above competing products' retail price, an additional product cost of 16% would leave us out of the market.

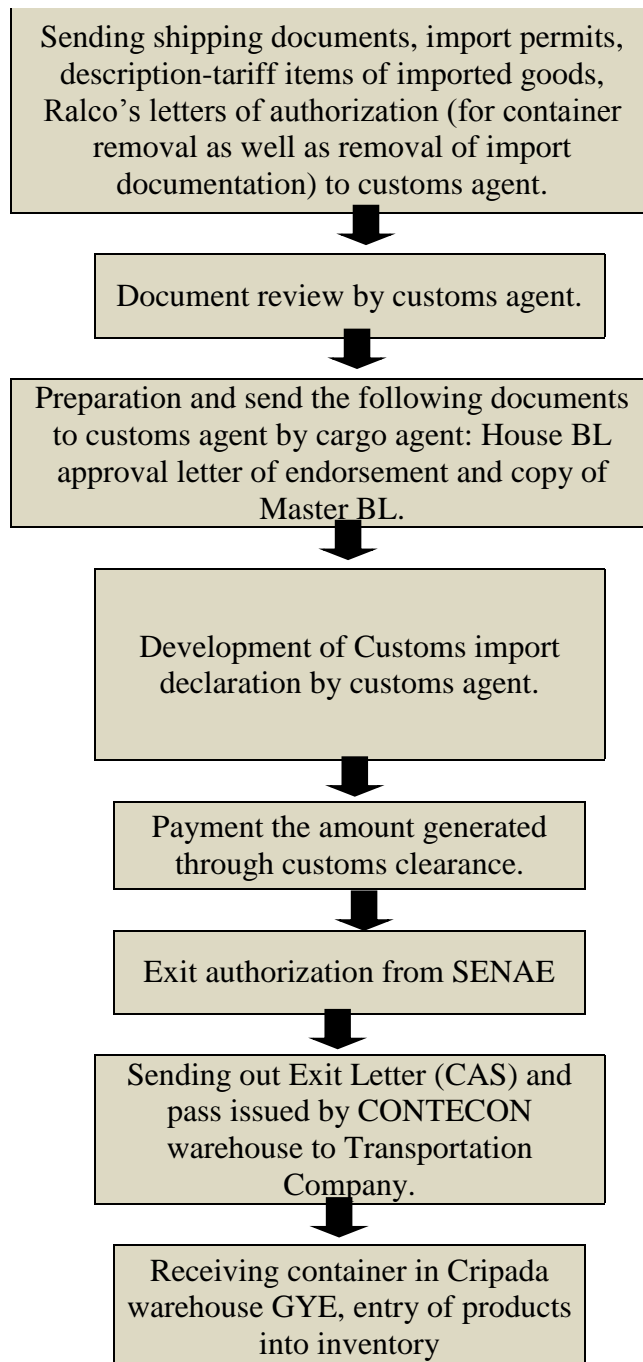


#### 4.8 Flowchart

Now we are going to establish a flow chart or activities diagram that will indicate us the procedure to follow when we perform an import.

**Cuadro 2:** Importación de pre mezclas de uso animal desde Estados Unidos





**Source:** Analysis of Harmonized System Code 2309902000, nutritional supplement pre-mix, for import to Ecuador from the United States

#### 4.9 CONCLUSIONS

This particular process is mainly distinguished because of its relationship with MAGAP and Agrocalidad, since it demands to get prior permits, meaning certain complications. Under these circumstances it is advisable to count on a proper planning in order to avoid process' delays and complications.

Another aspect to be considered during this process, is a special attention paid to the goods condition, not expose them to scenarios that could cause alterations because of consumption risks, as well as marketing issues.

Nowadays the import of these particular products has great benefits especially on taxes. The policies for products imported within HS 2309902000, represent an interesting opportunity to generate returns for those who commercialize it. We do not know if this beneficial condition will last after the specified time (December, 31st, 2014), if altered, this would be very disadvantageous for importers, since the price of products produced locally would be considerably more convenient.

## 5 CHAPTER V: FINAL CONCLUSIONS

Nowadays, pre-mixes field has a great potential for development not only in Ecuador but worldwide. One of the most attractive aspects of these products is at the origin of its components, making them highly profitable products for both manufacturers and retailers.

Premixes basically work as balanced feed's core that will ensure proper function as animal feed thus increasing feed's profitability.

One of the greatest opportunities that arise on this business' development is the fact that not all animal feed producers in Ecuador are premixes producers, which indicates we can develop strategic alliances with those who seek to increase their portfolio.

We have concluded that the sectors most welcome balanced feed are sheep and cattle. We also have a fundamental fact that main advising sources are natural personal or NGOs, which is other possible opportunity, creating strategic alliances with such organizations, once detected those that has greater impact.

The most important aspects for business' success is to find a suitable supplier to ensure quality products, stable packaging, good fluidity, redox, protection reactions, good packaging and proper labeling, these features guarantee a proper business' development. It is also recommended to provide us directly from manufacturers; this will ensure us quality and a competitive price in the market.

Premixes are located under HS Code 23099020; according to their classification they have a 0% tariff until December 31st, 2014. If this condition finishes after the above mentioned date, imported products cost will increase 16%, which means that either we are going to offer products whose selling prices are not competitive. So far it is not known whether this condition remain or end after the specified date.

Ecuadorian increasing exports and imports reflect a significant growth in premixes business. Many exporters are also importers, in order to increase the product portfolio to cover its customer's needs.

One of the major exporters worldwide is the United States, which covers almost 10% of this kind of exports worldwide. Ecuador's imports from this country have grown by 44% annually. Considering the risks involved with premixes use, it is very important to create security on those who use this products. It is an advantage having American products, since consumers feel safe knowing their origin. This is very convenient because it facilitates its merchandising.

We have detected the most important companies in this sector such as Cargill, Nutreco and AgFeed Industries. All of those produce premixes; it is interesting in order to find safe, stable and experienced business partners, which manage structured processes.

These products importing processes in particular differs from conventional processes because it requires getting prior authorization for shipment, issued by the Ecuadorian Agency for Quality Assurance, this action should be completed well in advance to avoid delays and drawbacks.

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**Annex 1: Major importers of heading 2309902000**

<b>NANDINA</b>	<b>NANDINA DESCRIPTION</b>	<b>IMPORTER NAME</b>
2309902000	PREMEZCLAS	ACUABIOTECLLC S.A.
		ADITIVOS Y ALIMENTOS S.A.
		ADITMAQ CIA.LTDA.
		AGRANCO DEL ECUADOR S.A.
		AGRIPAC S.A
		AGRO NATURAL AGRONAT CIA. LTDA.
		AGROAL CIA. LTDA.
		AGROSUNCORP S.A.
		ALIMENTSA,DIETAS Y ALIMENTOS S.A.
		ALLTECH ECUADOR CIA. LTDA.
		ANLAGEN DEL ECUADOR S.A.
		APROJOL SA
		AVICOLA ECUATORIANA C.A.AVESCA
		AVICOLA FERNANDEZ S.A.
		AVIHOL CIA.LTDA.
		BAYER S.A.
		BIO BAC S.A.
		BIOALIMENTAR CIA.LTDA.
		BIOLOGIA MARINA S.A., BIOMASA
		BRENNTAG ECUADOR S.A.
		CALDERON MERINO HERNAN PATRICIO
		CARVALECUADOR S.A.
		CHEMICAL PHARM DEL ECUADOR C.LTDA.
		CODEMET S.A.
		COLOMBINA DE INSUMOS AGROPECUARIOS COLINSUMOS
		CONSORCIO INTERANDINO, INTERCONSORCIO S.A.
		DIMUNE S.A.
		DISAN ECUADOR S.A ECUADISAN
		DISTRIBUIDORA MF MERCHAN Y FONTANA C.LT.
		DOLCA S.A.
		DRINZO S.A

	DSM NUTRITIONAL PRODUCTS ECUADOR S.A.
	ECO-BIOSCIENCE S.A.
	ECOMARINE RESEARCH S.A.
	ECUADPREMEX S.A.
	ECUANUTRIONIMEX S.A.
	ECUAQUIMICA, ECUATORIANA DE PRODUCTOS QU
	EMPACADORA GRUPO GRANMAR, S.A. EMPAGRAN
	EPICORE ECUADOR S.A.
	EQUINSA EQUIPOS E INSUMOS SA
	ESKIMO S.A.
	EXCELLAQUA S A
	EXPALSA EXPORTADORA DE ALIMENTOS S.A.
	EXPORKOD S.A.
	FARAECU S.A.
	FARMAVET CIA LTDA.
	FERTISA,FERTILIZ. TERMINALES Y SERV. S.A
	GISIS S.A.
	GRUPO DE SUMINISTROS NEPTUNO S.A. NSG
	IMPVET IMPORTADORA VETERINARIA CIA. LTDA.
	IMVAB CIA. LTDA.
	INBALNOR S.A.
	INDU STEEL S.C.C.
	INDUSTRIAL PROCESADORA SANTAY S.A.
	INDUSTRIAS VETERINARIAS INDUVE S.A.
	INTEROC S.A.
	INTERVET ECUADOR S.A.
	INVECUADOR S.A.
	KARAKORAM ECUADOR S.A.
	LABORATORIO MICROSULES ECUADOR S.A.
	MACUNA S.C.C.
	MARINE PROTEIN MARPROT S.A.
	MOLERPA S.A.
	MOLINOS CHAMPION S.A.
	NATURAL STAR S.A. NASSTAR
	NORTH STAR AGRICULTURE TECHNOLOGY NOSTAGRITECH CIA

		PFIZER ANIMAL HEALTH CIA. LTDA.
		PFIZER CIA. LTDA.
		PHARMACY & NUTRITION S.A.
		POLIDISTRIBUCIONES VETERINARIAS - POLIDIST S.A.
		PRILAB S.A. PRIME LABORATORIO S.A.
		PROBAC S.A.
		PROCESADORA NACIONAL DE ALIMENTOS C.A. PRONACA
		PROMARISCO S.A.
		PROTEINAS DEL ECUADOR ECUAPROTEIN S.A.
		QUIFATEX SA
		QUIMICA SUIZA INDUSTRIAL DEL ECUADOR QSI S.A.
		SAMANIEGO VIZUETA SILVIO GABRIEL
		SANO NUTRICION ANIMAL MODERNA SANOSAN CIA. LTDA.
		SIAP CIA LTDA
		SOCIEDAD CIVIL Y COMERCIAL A.M.M.R. VETERINARIOS
		TECNICOS AGROPECUARIOS DEL ECUADOR TADEC C.LTDA
		VALENCIA RIVERA GUSTAVO ADOLFO
		VALLE MASSON ELIESER JUAN CARLOS
		VENTAS AVICOLAS VETAVES C. LTDA.
		VITAMINAS Y MINERALES C.A.
		ZYR CORP S.A.

**Source:** Central Bank of Ecuador

## Annex 2: Requirements for the registration of companies

### ANEXO 38.

#### Requisitos para el registro de empresas

REQUISITOS PARA EL REGISTRO DE EMPRESAS FABRICANTES, FORMULADORAS, IMPORTADORAS, EXPORTADORAS Y COMERCIALIZADORAS DE PRODUCTOS VETERINARIOS
<b>Fabricante:</b>
Artículos 8 al 19, 22 (excepto literales j y k) la Decisión 483 de la Comunidad Andina de Naciones Y si fabrica productos biológicos también aplica los artículos 20 y 21
<b>Formuladores:</b>
Artículos 22 y 24 de la Resolución 120 Artículos 8 y 9 de la Decisión 483 de la CAN
<b>Imporadores y Comercializadores:</b>
Artículos 8, 9, 10 y 22 de la Decisión 483 de la CAN
<b>Exportadores</b>
Artículos 22 y 26 de la Resolución 120

Se realiza una inspección a las instalaciones de todas las empresas cuando haya cumplido con los requisitos documentales

Source: ([www.agricultura.gob.ec/](http://www.agricultura.gob.ec/))



### Annex 3: Requirements for registration of veterinary products

.....  
Nombre, cargo y firma  
AUTORIDAD NACIONALCOMPETENTE

#### ANEXO 36.

Requisitos para el ingreso de muestras **De la Muestra:**

- Cantidad de Muestra:

La muestra debe ser en la presentación comercial.

Si es spray mínimo dos envases.

Si el contenido es de 10 ml o menor, mínimo dos envases.

- Etiquetado y envasado:

Correctamente envasados y sellados.

El envase debe contener la siguiente información:

Nombre comercial.

Ingrediente/s Activo/s.

Concentración del I.A.

Tipo de formulación.

Fecha de formulación.

Fecha de caducidad.

Número de lote.

Nombre de Casa Fabricante y País de origen.

Nombre de Casa Comercial en Ecuador y Dirección

CERTIFICADO DE ANÁLISIS de Casa Fabricante o Casa Formuladora.

ESTÁNDAR ANALÍTICO Y ESTÁNDAR INTERNO (para cromatografía de gases) usado en el análisis del producto formulado.

- Etiquetado de Fabrica, con la siguiente información\*:

Nombre del Ingrediente Activo.

Pureza.

Lote.

Cantidad

Fecha de fabricación.

Fecha de caducidad.

Condiciones de almacenamiento.

Certificado de Análisis de la Casa Fabricante/Sintetizadora o certificadora.

Source: ([www.agricultura.gob.ec/](http://www.agricultura.gob.ec/))

**Annex 4: Insurance policy**

R.U.C. 0991311637001

**SECCION TRANSPORTES**

GUAYAQUIL: Compañías Sur No. 309 y Tiroles los Juncos  
 PBOX (95-6) 288-0500 Fax: (95-4) 248-8411  
 QUITO: República del Salvador 834-229 y Mena  
 Edificio San Salvador Pisos 1 y 2  
 PBOX (593-2) 225-1100 Fax: (95-2) 225-265

APLICACION No. **Nº 0006533**

emitida a favor de **Ralco Nutrition S**

REASSEGURADO

Embarcador por

La siguiente mercadería se declara en aplicación a la POLIZA FLOTANTE No. **0045146** para el viaje desde **1600 Main Road Marshall MN 56258-Estados Unidos** hasta **Km 1 1/2 Vía Davao - Cripado Gye** sobre el **avión** **LAN ETHX 99** vuelo **539** anunciado para el día **20 de Marzo de 2014** consignado a **Ralco Nutrition S** (Baguera, Agencia, Cia.) **Ralco Nutrións Cia. Ltda**

Lugar y Fecha: **Cuenca, 18 de Marzo de 2014**

MARCA	Nos.	Peso Bruto Kgs.	Cantidad Bultos	CONTENIDO	VALOR ASEGURADO \$	%	PRIMA \$	OBSERVACIONES
Ralco		894,76 Kgs	1 pallet	Suplemento Nutricional para animales	\$ 7.143,29	0,6	\$ 42,86	Todo Riesgo

POLIZA No.

EL ASEGURADO

*Paul D. Yancy*

ACEPTADO POR LA COMPAÑIA

*[Signature]*

FIRMA AUTORIZADA

NOTA: De conformidad con las condiciones de la Póliza, los Asegurados o sus Embarcadores, al llenar este formulario en duplicado y lo remitan a LATINA SEGUROS Y REASEGUROS C.A. o a sus Agentes autorizados antes de efectuado el embarque o despacho. La Compañía o el Agente devolverán el duplicado debidamente sellado y firmado.

NOTA: El presente formulario es uniforme para todas las Compañías de Seguros que trabajan en el ramo de Transporte y ha sido aprobado por la Superintendencia de Bancos con Resolución No. 95-437-S del 8 de Octubre de 1995.

Source: Ralco Nutritions

Annex 5: Bill of Lading



**EXPORT BILL OF LADING**

230 Marquette Ave. • Suite 1050 • Minneapolis, Minnesota 55401 USA  
 (612) 335-8205 • Fax (612) 851-3749 • FMC# 155789P

SHIPPER <b>RALCO INTERNATIONAL, LLC</b> 1400 HANF ROAD MARSHALL, MN 56258 UNITED STATES		BILL OF LADING NO. 1 <b>TSC92556-01</b>	DOCKING # <b>3PHLAG5998</b>																										
CONTAINER - 1 NOT NEGOTIABLE UNLESS CONSIGNED TO ORDER 1 <b>RALCO NUTRITIONES RALCONUTRICIA</b> LUISA AV. JOSE FERRAZ 4-138 Y 12 DE ABRIL CUMBRA ECUADOR R/C: 0190366421001 CONTACT: PAULA FLORES, TEL. 074103707		FORWARDING AGENT - Reference <b>TSC CONTAINER FREIGHT</b> 250 MARQUETTE AVENUE, SUITE 1050 MINNEAPOLIS, MN 55401																											
TITLE FROM <b>VICRAM LOGISTICS S.A.</b> MANUEL ITURBEY E 10-56 Y AV. CORONA QUITO ECUADOR TEL: 593 2 2569316 R/C: 1792298849001		POINT AND COUNTRY OF ORIGIN <b>MINNESOTA UNITED STATES OF AMERICA</b>																											
FILE MARSHALL, MN		FOR DELIVERY APPLY TO: <b>VICRAM LOGISTICS S.A.</b> MANUEL ITURBEY E 10-56 Y AV. CORONA QUITO ECUADOR TEL: 593 2 2569316 R/C: 1792298849001																											
VESSEL AND VOYAGE NUMBER <b>CSAV RAUTEN 1258</b>		PORT OF LOADING <b>BALTIMORE, MD</b>																											
PORT OF DISCHARGE <b>GUAYAQUIL, ECUADOR</b>		PLACE OF DELIVERY <b>GUAYAQUIL, ECUADOR</b>																											
		Number of Originals: <b>3</b>																											
PKGS & Nos/Container	No. of Pkgs	Description of Cargo	Gross Weight	Measurement																									
SUDU5303987 9206708	1x40'	CONTAINER SLAC: ANIMAL FEED PRODUCTS ON 20 SKIDS	17700.28K																										
Delivery Place: Cripada S.A. Guayaquil Km 14.5 Via a Daule PBX 593 4 500 8000 Guayaquil Ecuador X20340117043605																													
FREIGHT PREPAID, DESTINATION CHARGES COLLECT <i>TZ</i> SHIPPED ON BOARD CSAV RAUTEN 1258 ON JANUARY 22, 2014 AT BALTIMORE, MD THIS BILL OF LADING SHALL BE RATED IN ACCORDANCE WITH NRA NO. TSC111441 ENTERED INTO BETWEEN SHIPPER AND CARRIER																													
THESE COMMODITIES, TECHNOLOGY OR SOFTWARE WERE EXPORTED FROM THE UNITED STATES IN ACCORDANCE WITH THE EXPORT ADMINISTRATION REGULATIONS. DIVERSION CONTRARY TO U.S. LAW IS PROHIBITED.		<h1>ORIGINAL</h1>																											
Received by the Carrier in apparent good order and condition unless otherwise indicated herein, the Container(s) and/or goods hereunder mentioned to be transported and/or stored as indicated from the Place of Receipt to the Intended Place of Delivery upon and subject to all the terms and conditions appearing on the face and back of this Bill of Lading. If required by the Carrier, this Bill of Lading duly endorsed must be surrendered in exchange for the Goods or delivery order.		<table border="1"> <tr> <th>PAID</th> <th>BASE</th> <th>PREPAID</th> <th>COLLECT</th> <th>CUR</th> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </table>			PAID	BASE	PREPAID	COLLECT	CUR																				
PAID	BASE	PREPAID	COLLECT	CUR																									
IN WITNESS WHEREOF THE CARRIER BY ITS AGENT HAS SIGNED THE NUMBER OF BILL(S) OF LADING AS INDICATED ABOVE ALL OF THE SAME TENOR AND DATE ONE OF WHICH BEING ACCOMPLISHED THE OTHERS TO STAND VOID.																													
*EXECUTED BY THE SEABOARD COMPANY D/S/A TSC CONTAINER FREIGHT*																													
By <i>[Signature]</i>		Date <u>Jan 22, 2014</u>																											
AGENT FOR VESSEL/OPERATING CARRIER: Hasbary 8nd																													

Source: Ralco Nutritions