



University of Azuay
Faculty of Law
School of International Studies

**Feasibility Analysis for the Importation of Women's Apparel from Spain for its
Commercialization in Gualaceo**

**Graduate thesis prior to obtaining a Bilingual Bachelor's Degree in
International Studies with mention in Foreign Trade.**

Author: Karla Ximena González Ruiz

Director: Dr. Claudia Inés Campoverde Cárdenas

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Dedication

I dedicate this thesis to my parents with lots of affection for being my greatest support and inspiration in order to reach my goals. To my sisters, for being there in every special moment so I can be able to develop myself completely. To my dear classmates, for the great experience and backup during the studying stage; and in a very special way to God for bringing me and us the gift of life and for being my most important guide during this process of formation.

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Abstract

This graduation work presents the basic concepts, current legal regulations and the entire process of importing apparel from the female segment from Spain to Ecuador. It presents in detail everything that involves developing this foreign trade activity fulfilling all the requirements. The objective is to determine if the application of this research is or is not viable for an importer.

Apparel is a very attractive commodity for consumers. However, its import and legalization process is one of the most complicated. In addition, these goods are the most susceptible to smuggling and customs fraud. This situation causes great harm to the economy of the country and to the importer for breaking the rules. Therefore, this work is carried out to determine the viability of imports of this type of merchandise, with the fulfillment of all its requirements for commercialization in Gualaceo province of Azuay where the market study is developed. In the same way, several interviews, visits, analysis, etc. have been carried out in order to establish the result of this project.

Introduction

This research project presents a feasibility plan for the importation of female apparel from Spain and its respective trade in the town of Gualaceo. Below, are five chapters containing what is related to this foreign trade operation.

First, I investigated the history and influence of this type of merchandise in the economy of Ecuador. I also included some basic concepts that an import merchant must know in order to perform this activity. In addition, I will analyze the current legal regulations, in which the Title II, Book V of the Organic Code of Production, Trade and Investment, is the most important regulatory body.

Second, I am going to present a marketing study in order to know the target market in a better way. I performed a survey to obtain certain data, turn it into information, to analyze it and, finally, to determine the level of acceptance among consumers of imported goods.

Additionally, I conducted a study in order to establish the providers for the purchase of clothes in accordance to the results of the market. The analyzed suppliers are located in Spain, which is the host country of the most attractive and accessible brands and is under influence of the Multiparty Trade Agreement between Ecuador and the European Union.

In the next chapter, I extend on the entire importation process, preview requirements, restrictions, establishment of tariffs or import taxes, logistics and the nationalization procedure.

Finally, I performed the viability analysis, proposing an initial investment in order to afford all the import expenses. From this, I introduce three scenarios that simulate different levels of sales, so we can know the performance that the importer would obtain in each of these levels. This allows importers to make the best decisions.

I decided to do this project because throughout history, Ecuador has fought to reduce the volume of imports in order to protect the economy. This is a very reasonable notion. Nevertheless, imports are a vital part of foreign trade; and for them to be fruitful. I need to study the target market to investigate the requirements that must be fulfilled

for the entrance of foreign merchandise to establish costs and to study if it is achievable to apply such operations.

In order to consolidate all this graduation work, I interviewed professionals in this issue, visited the control entities such as SENAE, searched information, entered official websites and systems such as ECUAPASS, and analyzed the current legal regulations, and other actions, to get effective results for this project.

Chapter 1

Historical Background, Theoretical and Legal Basis for Importation of Apparel.

Introduction.

In this chapter, I mention the historical antecedents of importation of clothes in Ecuador by comparing the economic history of our country during the Colony, Republican and Contemporary Eras. Secondly, I present the theoretical foundation containing very useful theories and basic concepts for the development of this graduation research. As a final point, I explain on legal basis related to importations, considering our type of merchandise selected: apparel.

1.1. Historical Background.

For the development of this research, it is important to know and study the historical antecedents related to importation of clothes and analyze the feasibility. In addition, we must know about the effects and influence of this kind of foreign trade on the country's economy.

Since colonial times, Ecuador has been characterized by its great nature richness and its unique biological diversity. Its economy has been based on these two parameters. It has mainly exploited agricultural, mineral and industrial products. The industrial products did not last in order to strengthen the economy of the country.

Around 1660, the production of textiles became to be an important part of exports, generating huge incomes for the country mainly for the provinces of the mountain range region. The main products were cloths, canvases, baizes, dishcloths, etc. During this time, we appreciated high levels of prosperity in the Royal Audience of Quito; though foreign trade showed the opposite with its negative balance, because of the money/coin consignments people made and the disinterest of Spanish Crown to promote development.

Ecuadorian foreign trade started to develop in the Republican Era from 1821 to 1920. On the one hand, Guayaquil with its liberal ideology, sought to implement a system with low customs tariffs. On the other hand, Quito wanted to protect its local industry, which was mainly textiles. They supported high customs tariffs since this was a strong point of support for the development of Latacunga, Ibarra, Riobamba, Quito and Cuenca. Due to these discrepancies, Ecuadorian foreign trade could not consolidate. In 1740, this activity began to decline due to the entrance of foreign textiles and the inefficient factories of the country at that time.

With the opening of international trade and the massive income of English and French fabrics into Ecuadorian market, the productions of fabric factories from Quito, Latacunga, Ambato and Azuay continued decreasing in importance, to the extent that the majority of textile companies would disappear until mid XIXth century. Besides, to be realistic, the textile industry from the mountain range region was

obsolete, it operated inefficiently and it was doomed to disappear, because of the inheritance of the Colony (Ordóñez, 2012).

Moreover, during the Contemporary Period the textile industry in the country was still absent since levels of production, commercialization and exportation of such textile goods remained unrepresentative for the totality of Ecuadorian economy. The production of this type of merchandise had not been developed in such way it could fulfill expectations of Ecuadorian consumers; and in turn, the preference for imported products were the main reasons for the absence of this industry.

As a result of the recent stagnation due to the lack of designs innovation, local brands and technology allowed the entrance of foreign products. The Ecuadorian textile sector has been making efforts with the main objective of improving the current production rates and innovating in the creation of new products that suffice international demand (Pro Ecuador, 2012).

1.2. Theoretical Basis.

Countries have traded merchandise since ancient times and the economy studies the factors of competitiveness of them and their companies. This proves foreign trade theories that we have developed throughout history.

First, mercantilism was the first theory that tried to explain international trade. It consisted in that gold and silver were the main supports of national wealth, and they were essential for a vigorous commerce.

"The argument of Mercantilism was that the most convenient thing for a country was to maintain a trade surplus, which means, more exportations than importations." (Hill, 2007)

Second, the wealth of nations - according to Adam Smith - attacked the mercantilist premise that commerce is a zero-sum game. He affirmed that countries have a variable capacity to produce goods. During Smith's time, England, by virtue of its best

manufacturing processes, was the most efficient textile manufacturers in the whole world.

According to Smith, "the nations must be specialized in the production of goods for which they have an absolute advantage, and then they change them for the products manufactured by other countries." (Hill, 2007)

David Ricardo wondered what would happen if a nation had absolute advantage in both traded goods. For him, even in this situation there was a possibility of profit for both countries "By specializing in producing the most efficient country in production processes in order to represent a lower opportunity cost" (Daniels, 2010).

In addition, the new trade theory of 1970 stipulated that several economists pointed out that "the ability of companies to reach economies of great scale would have important implications for international commerce" (Rivas, 2017).

On the other hand, Ecuador is a primary exporting nation that has plans for the future in development and change of its productive matrix¹. Nevertheless, nowadays, the products that companies and factories produce do not satisfy the expectations of the consumer. In virtue of this, there is a great preference for imported products; that is why we really need to know and implement efficient procedures for the importation of merchandise. This process must be in accordance with the respective laws, in order to increase the economy of the country and lead the nation to relations of fair trade internationally.

The following section details different basic concepts, but important for the development of an importation plan.

¹ The Productive Matrix is the way a community or society is organized to produce certain goods, products or services at a given time and price, and also focuses on the development and transformation of the productive structure towards economic activities with greater growth of domestic demand and external; based on knowledge, skills, technology and innovation (SENPLADES, 2013).

1.2.1. Definition of Import

Importing is the access to foreign merchandise by the national territory fulfilling the appropriate requirements and obligations. This action begins with the negotiation and acquisition of the goods and merchandise that we want to commercialize in our country. Subsequent to this, the importer proceeds to the fulfillment of customs formalities for the legalization.

According to Article 147 of the Organic Code of Production, Commerce and Investments – COPCI² - importing is "the action of introducing merchandise from abroad or from a Special Zone of Economic Development complying with all the customs formalities and obligations." This confirms that this foreign trade activity is the entrance of new merchandise into the country, either for proprietary use or for marketing.

1.2.2. National Customs Service of Ecuador (SENAE).

In accordance to Article 212 of the COPCI, the legal body guide for this work, SENAE is "a legal entity of public law, with indefinite duration, technical, administrative, financial and budgetary autonomy, domiciled in the city of Guayaquil and with authority all across the national territory." The SENAE has ten districts located in the following cities: Cuenca, Esmeraldas, Guayaquil (Sea Port) and Guayaquil (Air Cargo Area), Huaquillas, Latacunga, Loja-Macarará, Manta, Puerto Bolívar, Quito and Tulcán. I would like to emphasize that the current investigation is oriented to the district of Cuenca with its reigning District Director: Engineer Gonzalo González Palomeque.

Furthermore, SENAE is one of the most important institutions related to foreign commerce operations. In this case, imports. SENAE is the state agency in charge of controlling and ensuring the fulfillment of obligations of the Foreign Commerce Operators³, in order to achieve the welfare of every country.

² The Organic Code of Production, Commerce and Investments is in force as of December 29, 2010, published through the Official Registry Supplement No. 351; replacing the Organic Law of Customs (LOA).

³ External Commerce Operators (OCEs): "broker that intervenes in foreign trade activities such as manufacturers, importers, exporters, transporters, consolidators, international freight brokers, ports,

Notwithstanding, SENAE is a public institution responsible for improving the good living style of Ecuadorian society through the efficient control of foreign commerce. It includes exportations, importations, and their facilitation, by promoting fair trade between merchandizers, traders and merchants who will fulfill with all the customs formalities and who agree with the local producers that elaborate goods with true and unique Ecuadorian quality (El Telégrafo. Ecuadorian Newspaper, 2014).

1.2.3. Customs Broker.

According to article 227 from COPCI, the Customs Agent is "the natural or judicial person whose license, granted by the Director or General Director of SENAE, empowers him/her to manage the clearance of merchandise, by signing the customs declaration in the respective cases established by COPCI Regulations. The customs broker is obliged to invoice for services in accordance to the table of minimum fees that will be set by the Director or General Director of SENAE." Such license will have a term of 5 years and it can be renewed for the same term. In the same way, the Regulation for the Activity of Customs Agents, in its Resolution No. DGN-0409, Official Register No. 525, mentions that: "The customs agent has the character of notary and auxiliary of public function." For this reason, the broker acts as a notary to confirm, "The data entered in the customs declarations that they formulate are in accordance with the information and documents that legally must serve as the basis for the customs declaration." Besides, SENAE, as part of its control activities, can verify this conformity.

Consequently, I consider important to mention the joint and several liability of the customs agents. According to article 1, letter b) from the Regulation for Customs Agents' Activities, this responsibility is "...assumed by the Customs Agent before the State, as well as the taxpayer with its respective obligation customs tax. Such liability

airports, customs warehouses, temporary deposits, Courier, operators of terminals, and that are regulated according to the provisions of the Director or the General Director of SENAE " (Ochoa, most commonly used general definitions related to the Ecuadorian Single Window, 2014).

is related to the dispatch⁴ of goods without prejudicing the administrative or penal accountability that legally corresponds to the Customs Agent. The Customs Agent is not in charge of valuation of merchandise."

On the other hand, article 227 indicates that "Customs Agents, who in the exercise of their activity, have participated as authors, accomplices or accessories of crimes, will be submitted to the criminal responsibilities constituted for punishing crimes against public faith and crimes of falsification of documents in general." For effects of responsibility, the Customs Agents are considered as public notaries. Finally, the most important duty of the Customs Agent is to fulfill the COPCI, its regulations and everything parameter stipulated by SENA. At the same time, the customs broker will advise and encourage the fulfillment of the regulations mentioned before to those who hire her/his services (COPCI, 2017).

1.2.4. Customs Regimes

A customs regime is the set of operations related to the treatment and destination of goods and merchandise; and in accordance to article 2, literal f) from the Regulation of the Title of Customs Facilitation for Commerce and Trade, Book V of COPCI⁵ a customs regime is "...the customs treatment applicable to merchandise, which is requested by the declarant in agreement with the customs legislation in force."

Figure 1 shows the customs regimes and their general classification.

⁴ Customs Clearance is the administrative procedure to which goods subject to customs control declared to any regime or other customs destination are subjected (Regulation of Book V of COPCI, 2017).

⁵ The Regulation on the Title of the Customs Facilitation for Trade, Book V of the COPCI is in force since May 19, 2011; published through the Official Registry Supplement No. 452.

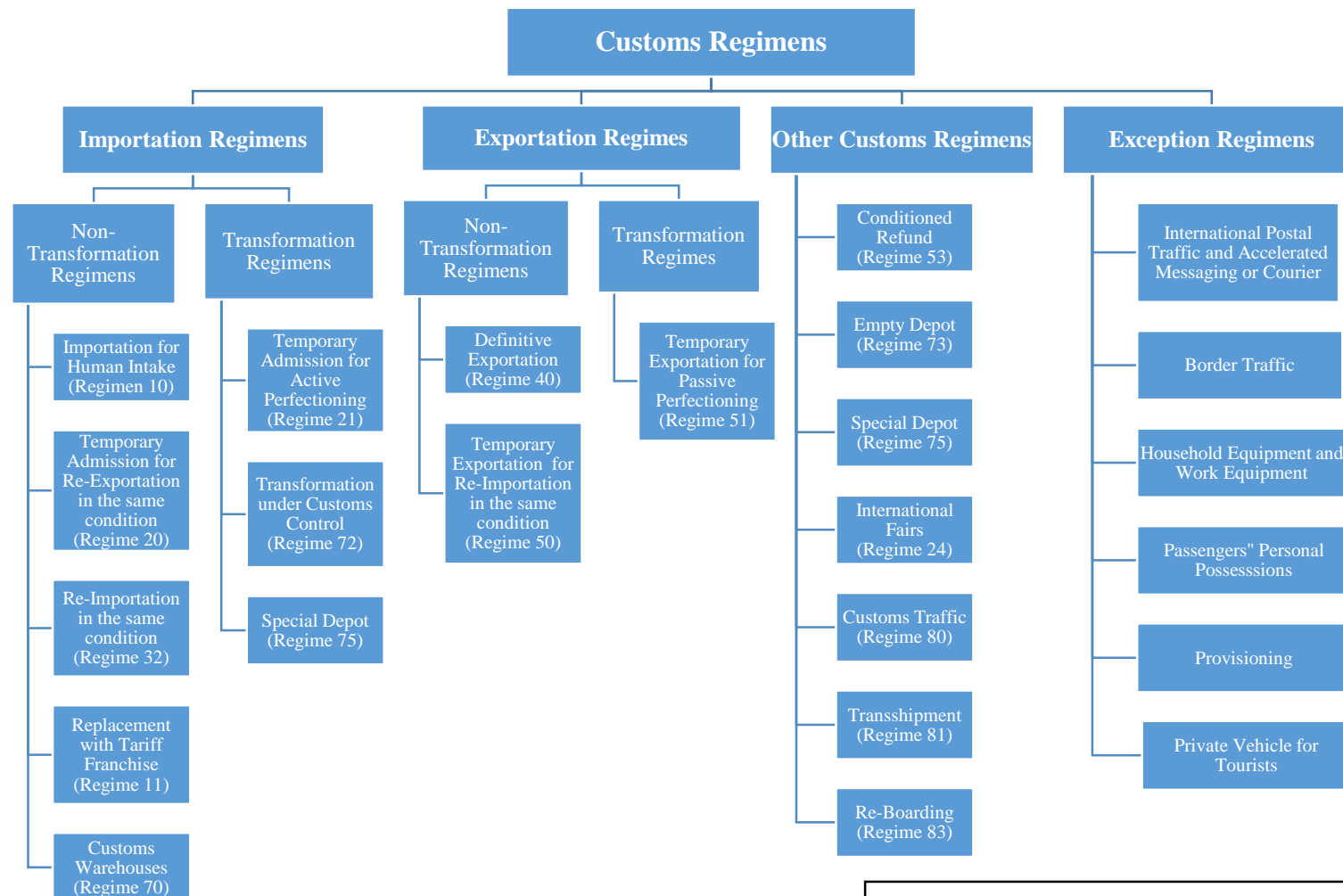


Figure # 1 Customs Regimes

Source: COPCI
Author: González Karla

1.2.4.1. Importation Regimes

In the classification of customs regimes, I am focus on importation regimes. These, in turn, are classified into transformation and non-transformation regimes. In this case, the importation regimes for human intake and customs warehousing which belong to the non-transformation regimes. I have selected this kind of regimes because they are used to import female apparel, goods and merchandise from Spain.

Importation Regime of for Human Intake

The article 147 of COPCI Regulations indicates that the Importation Regime for Human Intake or Regime 10 “allows the imported merchandise to circulate freely in the customs territory from abroad⁶ or from a Special Zone of Economic Development (ZEDE), after the payment and fulfillment of the respective importation duties, taxes, customs formalities, obligations, surcharges and sanctions where applicable.”

This customs regime permits the definitive entrance of foreign merchandise into the country and the General Director of SENAE establishes the procedures needed for this regime.

Customs Warehouse

The Regime 70 or Customs Warehouse is considered for foreign commerce operations and for importations. The article 152 of the *ejusdem* regulations states: “In the customs warehouse regime the imported goods are stored for a determined period under customs control in a place authorized and recognized for this purpose, without the payment of applicable duties, taxes and surcharges.”

The storage of merchandise could be public or private. Public storage could stock third-party goods and private customs warehouses are destined for exclusive use of

⁶ Customs Territory: is the national territory in which the provisions established in the COPCI are applied and comprises two zones; primary and secondary zone. Primary zone: is the interior area of ports and airports, customs and local precincts enabled at land borders, as well as other places established by the customs administration. Secondary zone: includes the remaining part of the Ecuadorian territory including territorial waters and airspace (COPCI, 2017).

their respective owner. Generally, this regime is used when the importer does not wish to nationalize all the merchandise directly, especially if taxes are high. This regime is an option to afford the importation by fees; in such way, the importer can nationalize the merchandise and pay the corresponding taxes. Regarding Article 146 of Book V of COPCI Regulations, the permanence term in Customs Warehouses is one year, beginning with the direct importation of merchandise to the current regime, and culminating with the nationalization of every good.

1.2.5. Ecuadorian Technical Standards and Certification of Origin

1.2.5.1. Ecuadorian Normalization Institute (INEN)

In order to perform the mentioned importations and importations for human intake, the importer requires a certificate of recognition, which is granted by the Ecuadorian Normalization Institute.

The Ecuadorian Normalization Institute is a technical entity of Public Law, with legal responsibility, assets, and proprietary funds, administrative, economic, financial and operational autonomy. INEN is the national technical institution competent in matters of regulation, standardization and metrology, in accordance with Ecuadorian laws and in conformity with international tractates, agreements and covenants (INEN, 2009).

The mission of this institution in the importations process is to protect the health of living beings. The services of INEN provide security to consumers by executing control processes in order to increase life quality in the nation.

1.2.5.2. Certificate of Origin

The certification of origin is a requirement for importation, especially for identifying tariff preferences⁷ in accordance to international tractates concluded among countries to generate mutual benefits.

This document certifies the country of origin of the imported merchandise proving that the merchandise has been manufactured in such country. This certification is used only for exportations and importations with extra-community nations, in such way the goods circulate in preferential regimes and fulfill the corresponding tariffs (Pro Ecuador, 2013).

1.2.6. Tariff Rights

With the purpose of protecting the economy of Ecuador these rights are predicted in the importations tariff for different goods and merchandise to be commercialized in Ecuador.

According to Book V of COPCI Regulation, the types of taxes to foreign commerce are ad-valorem, specific and mixed taxes. The analyzed taxes are as follows.

- Value-added Tariff or Ad-Valorem: "These kinds of values are established by the respective authority, and they consist of percentages applied on the value of the merchandise" (Book V, COPCI, 2017). This tariff rate is directly related to the value of the good or merchandise, and it is calculated by referring to the CIF (cost, insurance and freight) value of the good.

For example, the customs duties for clothes are 10% of the CIF value.

- Specific Tariff: "These tariffs are established by the respective authority, consisting of fixed surcharges to be applied based on certain conditions of the merchandise."

⁷ It is known as tariff preferences to the elimination or reduction of taxes, granted by one country to another under mutual agreement of the parties involved in it (World Trade Organization, 2017).

(Book V, COPCI, 2017). The specific tariff depends on the units of measurement of the goods: physical units, weight, dimensions, volume, etc. For example, the specific tariff for clothes is \$5.5 per kilo.

- **Mixed Tariff:** "The respective authority establishes the mixed values, which consist of ad-valorem tariffs and specific customs duties to be applied jointly" (Book V, COPCI, 2017). This tariff is the combination of an ad-valorem right and a specific right according to the respective conditions, through the application of one of them below a certain limit and the application of the other above such value limit. For example, garments do have mixed tariff, because they pay ad-valorem tariff and specific tariff: 10% plus \$5.5 per kilo. Such values are established by the corresponding customs authority.

- **Childhood Development Fund (FODINFA):** Tax administered by the National Institute for Children and Family (INNFA) with 0.5% of the CIF value.

- **Value-Added Tax (VAT):** Administered by the Internal Revenue Service SRI. Twelve percent of the result of the following sum: CIF + Mixed Tariff + FODINFA + Safeguard (In case such tariff is in force).

Recently, the General Director of SENA E announced the charge of a customs control service fee in order to avoid smuggling and fraud. The fee charge (TSCA) is \$ 0.10 cents per imported unit. This rate has the following formula:

$$\text{Weight of Goods (grams)} / \text{Control Unit (grams)} * 0.10 \text{ (TSCA)}$$

"The control unit is established depending on the features of the goods, including weight in grams, and minimum measure unit" (SENAE, 2017).

This rate has been in force since February 2018, with the objective of promoting a fair commerce. Such tariff rate is also added to the previous formula for the payment of taxes on clothing importation.

Therefore, I consider it important to be always aware of the different dispositions that can be executed such as increase of tariffs, new rates, etc. so we can perform a feasibility plan correctly.

1.3. Legal Basis

1.3.1. The Political Constitution of the Republic of Ecuador

In some articles of the Ecuadorian Magna Chart, we find the description of rights related to commercialization, work, economic exchanges, fair commerce, etc. We must identify these articles of the Supreme Ecuadorian Norm to consolidate our research.

In sections of work and social security, users and consumers, economic exchanges and fair commerce, it is possible to observe the following articles related to our topic. In accordance to article 33 of the Constitution, work is an economic right and a social duty at the same time. This allows personal accomplishment, becoming this basis of national economy. The Government guarantees plenary respect to workers' dignity, fair remunerations, healthful jobs and total freedom to choose their favorite job in order to ensure the best performances.

The article 34 *ibidem* recognizes the right to social security as an inalienable right, and the State will ensure its fulfillment as a priority and responsibility. "Social security will be governed by principles of solidarity, obligation, universality, equity, efficiency, subsidiarity, sufficiency, transparency and participation for the satisfaction of individual and collective needs."

Moreover, it is important to know the right of people to obtain good quality goods and services, and the right to choose them with total freedom. According to this, article 52 *ejusdem* says "The law will establish quality control mechanisms, defense procedures for every consumer; and sanctions for violation of such rights."

Article 335 of the Supreme Norm indicates “The State will regulate, control and intervene in: exchanges, interchanges, trade-offs and economic transactions. The State will also sanction exploitation, usury, hoarding, simulation, speculative intermediation of goods and services, as well as any form of damage to economic rights and to public and collective goods.” In the same way, this article is about the prices policy, which protects the economy of Ecuador, avoids monopolistic practices, excessive dominance in the market and different unfair practices.

The National Government must ensure fair practices. In this sense, article 336 of the Magna Chart mentions that the State will be in charge of promoting fair trade, in order to import goods and services of the highest quality to demonstrate sustainability. As well, this article affirms, “The State will ensure transparency and efficiency in markets. Ecuadorian Government will foment competition under equal conditions and opportunities, which is defined by national laws.”

Finally, I have considered article 337 from our Political Constitution because it alludes to development of infrastructure, which is destined for storage, transformation, transportation and commercialization of products in order to satisfy all the consumer needs. This article also mentions that such development has the purpose of “guaranteeing the participation of Ecuadorian economy in regional and global context based on a strategic vision.”

1.3.2. Organic Code of Production, Commerce and Investments

The COPCI Regulations contains VI Books, which are detailed as follows:

Book I: Productive Development, Mechanisms and Competency Organisms.

Book II: Productive Investment Development and its Instruments.

Book III: Business Development of Micro, Small and Medium Enterprises; and Production Democratization.

Book IV: Foreign Commerce, its Control Organisms and Instruments.

Book V: Systemic Competitiveness and Customs Facilitation.

Book VI: Production Sustainability and its relationship with the Ecosystem.

Each one of these books possesses its respective Regulations.

The most relevant book for the performance of my investigation is Book V: Systemic Competitiveness and Customs Facilitation. As I mentioned before, the regulation of this book is called Regulation to Customs Facilitation Title for Commerce, from Book V, COPCI in force since December 29, 2010. The first and the second book have been in force since May 19, 2011, effectively replacing, the Organic Law of Customs and its Regulations.

The same normative body and its bylaws are very useful to regulate external commerce. COPCI is the most important legal basis for the current research, because it contains important issues, such as productive business, development business, investment and everything related to foreign commerce and customs facilitation. According to section c), Article 19, COPCI, about investors' rights, we observe freedom of importation and exportation of goods and services considering exceptions of the legislation in force and international agreements.

As already, indicated, customs duties are contemplated in article 77 and they can appear under different technical modalities such as the following:

a. Fixed Tariffs: These tariffs are established when there is a unique rate for a subheading of customs nomenclature and for foreign commerce.

- Importation Taxes: The CIF value of the merchandise is the tax base for calculation of taxes and it comprises the sum of the following values:

- FOB price (Invoices Supported Value).
- Freight (International Transportation Value).
- Insurance (Bonus Value).
- Total: CIF.

Once we have obtained the CIF value we will be able to calculate the taxes previously mentioned, which are:

- Mixed Tariff.
- Children Development Fund (FODINFA).
- Value Added Tax (VAT).

b. Tariff Contingents: They appear when we establish a tariff level for a certain amount or value of imported or exported merchandise, and a different one to importations or exportations that exceed such amounts.

Additionally, this article expresses that “We will also recognize other modalities duly ratified by Ecuador and contemplated in international commercial tractates. National tariffs must respect commitments acquired in different international tractates, which are duly ratified, without prejudicing the right to apply safeguard⁸ measures or commercial defense measures if the tariffs exceed the established rates.”

Notwithstanding, the *ejusdem* article 78 expresses: “...the responsibility of COMEX for establishing non-tariff regulatory measures for importation and exportation of merchandise in the following cases:

- a.** In order to guarantee a fundamental right recognized by the Constitution of our Ecuadorian Republic.
- b.** To fulfill the provisions of international tractates or covenants in which Ecuador is a vital member.
- f.** To apply temporary measures for correcting imbalances in the payments’ balance” (COPCI, 2017).

The rates required for different procedures such as permits, registrations, authorizations, licenses, analyzes, inspections, etc., are applied for importation and exportation of merchandise and they differ from regular customs procedures and services. In addition, in accordance to article 80, “We will set customs rates in proportion to cost of true provided services at local or national level.”

In the same way, article 81 refers to validity of electronic procedures for approval of diverse formalities on external commerce. According to Mr. Nicholas Cantos, Customs Broker Assistant in Cuenca, “Years ago, due to the lack of Ecuapass System or zero paper culture, all the procedures were done physically, which caused serious delays. Nevertheless, nowadays, with the help of such unique electronic system, we

⁸ Under Article 19 of the GATT 1994, safeguards are defined as emergency measures due to increased imports of certain goods; and these imports have caused or threaten to cause great damage to national production.

have speeded up every process a lot. However, zero paper culture is still in process. I mean we haven't reached this objective consisting of not using any paper."

Another important article is 82 *ejusdem* because it mentions the following parameter about mechanisms "Non-tariff measures include non-tariff contingents, importation licenses, sanitary and phytosanitary measures, technical regulations; and any other mechanism recognized in international tractates duly ratified by Ecuador."

Finally, this section includes the nomenclature mentioned in article 83, COPCI, which informs that for implementation of tariff and non-tariff measures to importation merchandise. The importer should use the proper nomenclature defined by the entity in charge of foreign commerce, according to the Convention on Harmonized System of Designation and Coding of Merchandise (Harmonized System), or other systems previously ratified in Ecuador.

1.3.2.1. Customs Tax Obligation

The Customs Tax Obligation is the personal legal link between the State - represented by SENA - and persons related to international traffic of merchandise, such as importers, exporters, among others.

COPCI's Article 107 states that foreign commerce operators are those who submit to customs authority⁹, by fulfilling the respective taxation and all the customs formalities."

The Article 108 *ibid* determines the following Taxes on External Commerce:

- Customs duties.
- Taxes established in organic and ordinary laws whose generator events are in conformity to entrance or exit of merchandise.
- Customs services' rates.

⁹ Article 207 of the COPCI indicates that the customs authority is "the set of rights and attributions that the supranational norms, the law and the regulation grant privatively to the National Customs Service of Ecuador for the fulfillment of its purposes."

The National Customs Service of Ecuador, through a specific resolution, will create or eliminate customs service fees. This entity will set rates and it will regulate their collection. The tariff surcharges and other economic taxes to be applied by means of commercial defense measures or similar nature will not be considered as taxes according to the terms established in this Code, therefore such customs taxes will not respect principles of Tax Law (COPCI, 2017).

The commercial defense measures resolve unfair distortions in the commerce market. According to COPCI Regulation, these measures prevent and repair damages to national production. However, it is important we work very hard for these measures to be recognized nationally, bilaterally and regionally through the tractates ratified by Ecuador in the World Commerce Organization (OMC).

The most prominent commerce defense measures are as follows:

- **Safeguards:** This is a temporary measure of urgency created due to the increase of imports of certain merchandise in order to avoid damage to internal production.
- **Surveillance Measures:** These measures are applied in case importations threaten national production, by surveilling importations of certain goods.
- **Compensatory Rights:** These are national rights applied to afford any aid or subsidy granted in the production of goods imported to Ecuador.
- **Anti-dumping:** This right enters in force when a good from any nation is exported at a lower cost than its normal value, which causes damage in the branch of similar products.
- **Special Measures:** We apply special measures when imports of a product under preferential conditions threaten domestic production.

Next, the **Generating Fact of the Customs Tax Obligation** is presented to the importers. It is mentioned in article 109 of the normative body that is being analyzed. It indicates that "it is the entry of foreign goods or the exit of goods from the customs territory under the control of the customs authority¹⁰."

Therefore, within the Customs Tax Obligation it is important to know the customs value of the imported goods. This value is called the taxable base and according to article 110 of the COPCI "The customs value of the goods will be the transaction value of the same plus the transportation and insurance costs, determined as established by the provisions that govern the customs valuation." In addition, it is important to know that the cost of the insurance is also part of the customs value. However, the insurance policy will not be a mandatory support document to the DAI. Additionally, the *ejusdem* article expresses "For the calculation of the taxable base, the values in foreign currency will be converted to the currency of legal use, at the exchange rate in effect at the date of presentation of the IAD¹¹."

According to article 111 of the COPCI, the **Subjects of the Customs Tax Obligation** are as follows:

1. **Active subject**, same that comes to be the State through the SENAE.
2. **Passive subject** is the one who must cancel the respective tax as taxpayer¹² or responsible¹³. Example of a taxpayer is the Importer and Responsible can be the Customs Agent or also the legal representative of an importing company.

¹⁰ The Customs Authority is the organ of the competent public administration, who applies the customs legislation, its complementary and supplementary norms; also, it determines and collects taxes on foreign trade; exercises control and customs authority; lends by itself or by concession the customs services established in the COPCI.

¹¹ Import Customs Declaration (DAI): it is a form that contains the general information of the merchandise that is being imported. According to article 137 of the COPCI, this must be presented according to the procedures established by the Director or General Director.

¹² Article 25 of the Tax Code states that the taxpayer is: "the natural or legal person to whom the law imposes the tax benefit for the verification of the generating event."

¹³ Responsible, according to article 26 of the Tax Code is: "the person who, without having the character of a taxpayer, must, by express provision of the law, fulfill the obligations attributed to it."

Requirement of the Customs Tax Obligation: According to article 113 of the regulatory body under analysis, the Customs Tax Obligation is enforceable in the following cases:

- a. In the liquidation¹⁴ and in the substitute¹⁵ declaration of import or export, from the day in which the payment is authorized.
- b. In the rates¹⁶, from the request of the service.
- c. In all other cases from the business day following the notification of the supplementary¹⁷ settlement, correction of taxes¹⁸ or corresponding administrative act¹⁹.

On the other hand, **the customs tax obligation is extinguished by the following:**

1. **Payment:** According to Article 3 of the Regulation to Book V of the COPCI, it can be done through a physical or electronic channel established by the customs authority, and through the institutions of the National Financial System.

2. **Compensation:** Article 119 of the Organic Code, subject matter of analysis, determines that the tax debts of the taxpayer with the SENAE, with tax credits that it may have, are compensated totally or partially, ex officio or at the request of a party. In addition, when these are recognized by the central tax administration and that these are not authorized.

¹⁴ The liquidation of taxes is a procedure that allows quantifying them, which must be paid to the active subject, which is the State through SENAE.

¹⁵ The substitute declaration is a correction tool for the declarant or customs broker, who may make adjustments to the Customs Declaration of merchandise; provided that the administration has not issued a rectification of taxes for the same reason or has not formally initiated the subsequent control process.

¹⁶ The taxes are classified as: Taxes, Rates and Special or Improvement Contributions. Fees are a tax generated by the provision of an effective or potential service, given directly by the State. The importer pay for the use of a public service and in this case, not because the importer have more or less economic capacity. If there is no administrative activity, there can be no fee. Applying to the customs matter are the values that are canceled by the customs services related to the procedures of import or export of merchandise; and according to Article 80 of the COPCI, they will be fixed in proportion to the cost of the services rendered (Blacio, 2009).

¹⁷ The complementary liquidation is carried out as a consequence of the act of appraisal and the rectification of taxes. They can be done before taxes payment; otherwise the process will be subject to subsequent control (After the release of the goods).

¹⁸ The rectification of taxes is the act by which, the Director General of SENAE, determines the difference of taxes with respect to those actually canceled, in favor of the taxpayer of the tax obligation or of the administration, result of the process of subsequent verification of the customs declarations.

¹⁹ In accordance with Article 65 of the Statute of the Administrative Legal Regime of the Executive Function (ERJAFE) Administrative Act is any unilateral declaration made in the exercise of the administrative function that produces individual legal effects directly.

3. Acceptance of express abandonment: written waiver of ownership of the goods in favor of the State. In turn, acceptance by the District Director extinguishes the customs tax obligation.

4. Declaration of the definitive abandonment of the goods: The district director is the one who declares the definitive abandonment, in the following cases: if in 25 working days the causes of tacit abandonment have not been corrected, absence of the declarant in the second physical capacity fixed by the customs administration. In the case of personal effects of traveler or taxable goods retained in the international arrival hall and provided that they have not been withdrawn within 5 days after their arrival in the country.

5. Loss or total destruction of the merchandise: "it is the elimination of merchandise, which makes it totally useless according to its nature or function, leaving them without commercial value" (Regulation of Book V of COPCI, 2017).

The extinction of the customs tax obligation happens when this has occurred before the arrival of the goods, in temporary storage, in facilities authorized under the regime of temporary admission for inward processing; in fortuitous event or force majeure, recognized and accepted by the Customs Administration. Theft, robbery or theft is not a cause of extinction of the customs tax obligation.

6. Administrative or judicial confiscation of the merchandise: According to Art. 123 of the COPCI, the administrative confiscation is the loss of ownership of the merchandise by declaration of the corresponding district director, in firm or enforceable resolution. This confiscation may be issued in the case of merchandise left behind, shipwrecked, stolen and in the case of goods in respect of which the shipment has been ordered and it has not been made within the time allowed, in which case the obligation to pay fees for customs services. Likewise, the judicial forfeiture is the loss of ownership of the merchandise because "The Judge declares the definitive confiscation and orders the auction or direct sale of the merchandise in accordance with the legal and regulatory norms in force"(Espinoza, 2009).

According to COPCI's Article 116, terms for payments are the following:

1. Liquidation and substitute declaration within two business days²⁰ after the payment authorization.
2. In rates, the business day after the legal obligation.
3. In rest of cases, within twenty business days after the notification of the respective act of customs tax determination or corresponding administrative act.

In case of not paying the taxes within the anticipated terms, interest will be generated, calculated from the date of the enforceability of the tax obligation. Within this topic, it is important to consider that interest is generated by taxes, but not by fines.

1.3.2.2. Customs Operations.

Commercial exchange customs activities performed for entrance or exit of merchandise from customs territory are regulated in Regulation to Book V, COPCI, Title II and other norms established by SENAE.

According to article rr), section 2, Regulation to Title II, Book V, COPCI; customs operations are set of activities related to trade of merchandise, transportation and persons submitted to customs control.

Chapter IV, COPCI, Book V, Title II on **customs operations**; develops the following topics, which are vital for my graduation project:

Trespassing the customs border, which according to article 129 of this normative body is the entry or exit of persons, merchandise or means of transport to or from the national territory. This act that must be carried out on the days, hours and places authorized by the Director or General Director of SENAE.

²⁰ It is considered working days to the working days; that is, from Monday to Friday, without taking into consideration holidays or holidays.

Another issue is the **load manifest**, which is the document that the carrier delivers to the competent customs authority for the control of the goods to be carried out; and according to the Regulation of the ejusdem Code, some rules²¹ must be followed. The cargo manifest contains the information regarding the means of transport, packages, weight and identification of the merchandise comprising the cargo.

Within customs operations it is important to indicate the **rights of the Owner, Consignee or Consigned Person**. Article 136 indicates that prior to presentation of the Declaration, the user or her/his representative with authorization from the Senae's Director and under his control, may perform the recognition of the goods for the verification of the accuracy of the merchandise and documentary information received.

Customs Declaration of Importation, Supporting Documents and Accompanying Documents.

1.3.2.3. Customs Declaration

The Customs Declaration of Importation²² (DAI) is a form in which general information relative to merchandise entering the country is recorded. To carry out an import, the trade operator must make the respective declaration and comply with the established procedure through a Customs Agent. In addition, certain information of the DAI such as weights, port of destination and origin, freight, among others, will be taken from the transport document. It has been

²¹ The rules are the following according to Article 31 of the Regulation to Book V of the COPCI: A) By sea, the cargo manifest transmission is presented before the arrival of the cargo. 6 hours before in nearby ports and 48 hours for others. B) By land, the cargo manifest will be delivered until the moment the border crossing is made. C) By air, the delivery of the cargo manifest is made before the arrival of the means of transport to national territory; but, if the flight is longer than 4 hours, the transmission must be carried out up to 2 hours before the arrival of the means of transport. D) For consolidated loads, in transport by sea, the manifest must be transmitted before the arrival of the means of transport; in the air field up to 4 hours after the arrival of the means of transport for flights of less than 4 hours, for flights of more than 4 hours the manifest must be transmitted before the arrival of the means of transportation.

²² According to Article 63 of the Regulation to Book V of the COPCI, the Customs Declaration can be presented in a physical and / or electronic manner according to the procedure and format established by SENAE. It should be noted that currently the DAI is presented only electronically to promote zero-paper culture.

generated, registered and validated in the computer system, Ecuapass²³. In the same way, it is important to mention the Ecuadorian Single Window²⁴, which allows SENAE to carry out validation and verification processes of all the sent content (Chamber of Commerce of Quito, 2016).

In simpler terms, the DAI is a document that records all the essential information for the declaration of the merchandise to be imported, such as: pesos, freight, port of destination, port of origin and other information found in the transport document, this is transmitted through a Customs Agent and must be accepted by SENAE.

Article 64, Book V, COPCI states that customs declaration is "unique and personal, consequently, it must be presented by the importer or through a Customs Agent." Each importer is free to choose his trusted Customs Agent, selected from the constant list on the SENAE website. In addition, for their work, the respective fees must be paid, which are regulated in Resolution No. SENAE-DGN-2012-0140-RE with the following rates:

- A minimum of 50% of a unified basic salary for the processing of any type of import customs regime of those contemplated in articles 147 to 153 and 158 to 160 of the COPCI, under the modality of air or land transportation.
- A minimum of 60% of a unified basic salary if the merchandise enters by sea.
- In the case of exports, the fees are set freely by agreement between the parties.

In another instance, it is necessary to consider that documents attached to DAI are divided in two groups: accompaniment and support documents, which are presented below.

²³ The SENAE Computer System is the ECUAPASS System, was launched on October 22, 2012; replacing the old Interactive System of Foreign Trade (SICE), so that the OCES carry out all its import and export customs operations. The main features of this system are it seeks to reduce the excessive use of paper and simplification of procedures.

²⁴ The Ecuadorian Single Window is an electronic tool through which the users of the customs services and, in general, the foreign trade operators, will present the requirements, procedures and documents necessary to carry out foreign trade operations. To facilitate the processing via internet and in turn reduce the time and transaction costs of foreign trade activities (SENAE, 2017).

Enclosed Documents: These are control documents that must be processed and approved before the importation of merchandise. This requirement must be included in the legal provisions that the foreign trade regulatory body, COMEX²⁵, establishes for this purpose (Chamber of Commerce of Quito, 2016).

Support Documents: The supporting documents will form the basis of the information of the customs declaration to any regime. These original documents, whether physical or electronic, must be kept in the file of the declarant or his customs agent at the time of presentation or transmission of the customs declaration and will be under his responsibility as determined by law (Chamber of Commerce of Quito, 2016).

Main support documents:

- Transportation Document²⁶.
- Commercial Invoice²⁷ or commercial transaction document.
- Origin Certificate²⁸.
- Documents required by SENA²⁹.

²⁵ The acronym COMEX refers to the Committee on Foreign Trade, an organization that entered into force on January 1, 2013 through Resolution No. 59; the same that is regulated in Book IV of the COPCI. "The COMEX is the body that approves national public policies on trade policy, is a collegial body of public inter-sectorial character, in charge of the regulation of all matters and processes related to this matter." The COMEX is composed of the following entities: Ministry of Foreign Trade, Ministry of Agriculture, Livestock, Aquaculture and Fisheries; Ministry of Industries and Productivity; Ministry of Economy and Finance; National Secretariat of Planning and Development. Additionally, the following entities, with voice but without right to vote, are part of: Ministry Coordinator of Production, Employment and Competitiveness; Coordinating Ministry of Economic Policy; SENA and other institutions determined by the President of the Republic (Ministry of Foreign Trade, 2017).

²⁶ According to Regulation Book V, COPCI "is the document that proves the ownership of the goods; the same that can be endorsed."

²⁷ It is the document that justifies the value of the commercial transaction for the import or export of the goods. It is mandatory to present the original document with the necessary information for proper customs control.

²⁸ According to the Regulation to Book V of the COPCI, "this document allows the release of taxes on foreign trade in the corresponding cases, under international conventions or treaties and supranational regulations."

²⁹ Example: SENA could request the declarant to translate the information contained in the supporting or accompanying documents.

1.3.2.4. Capacity

According to Article 140 of the COPCI, this act allows the Customs Administration to establish the tax determination, through electronic, physical or documentary verification of origin, nature, quantity, value, weight, measurement and tariff classification of merchandise.

Acquisitive Modalities

Article 78th, Book V, COPCI, mentions that goods requiring a Customs Declaration must use the following acquisitive types:

- Automatic
- Electronic
- Documentary or Physical (Intrusive or Non-Intrusive)

The selection is performed in accordance to the analysis of risk profiles³⁰ established by SENAЕ.

(...) When the goods must be subject to control by other authorities, including the physical recognition of these, the customs authorities shall ensure that the controls are carried out in a coordinated manner. At any stage of the customs control process, SENAЕ may carry out inspections of the merchandise with X-rays or similar, regardless of the type of dispatch to which it is submitted.

Acquisitive Rules.

The *ibidem* regulation indicates the following norms:

- a) **Nature of goods** is established with the verification of the constituent material, degree of manufacturing and other characteristics that allow to identify the product.

³⁰ Risk profiles consist of the predetermined combination of risk indicators, based on information that has been collected, analyzed and ranked (COPCI, 2017).

b) **Tariff classification** is carried out applying the general rules of the harmonized system for the designation and codification of merchandise, Harmonized System of the World Customs Organization, complementary national notes, internal rules and application of tariff classification consultations in force, as contemplated in said Regulation.

c) **The customs value of merchandise** will be determined according to the valuation rules of the World Trade Organization, and the national and supranational provisions that govern the customs valuation.

The result of each one of the stages is registered in Ecuapass the same day. When physical inspection is carried out, images of the graduated goods must be registered. Several gauging channels can be used, depending on which one is assigned, Customs manages the declaration, to determine the correct settlement of taxes on foreign trade, and compliance with all formalities; There are the following gauging channels:

- **Automatic Gauging Channel:** It is the mode of dispatch that is carried out through the electronic validation of the Customs Declaration through the computer system with the application of risk profiles³¹ established by the National Customs Service of Ecuador (Regulation of Book V of COPCI, 2017). In addition, imports of merchandise that require prior control documents or accompanying documents are excluded from this type of gauging, as long as they are not transmitted electronically, in the same way imports that require inspection by another State entity, as established in the relevant legal regulations.
- **Electronic Capacity Channel:** Consists in verification of Customs Declaration and/or its accompanying and support documents, contrasted with the information recorded in the computer system of the National Customs Service of Ecuador (Regulation of Book V of COPCI, 2017). The

³¹ According to Article 105 of the Regulation to Book V of COPCI, Title II, risk profiles are established by SENAE, which are applied to customs declarations and transport documents based on the criteria of selectivity through a computer tool, which contains information about the OCES; and this tool is regulated by the General Directorate of SENAE.

exclusions for this type of capacity are the same as those of the automatic capacity recently mentioned.

When I analyzed these two types of capacity, they mean almost the same. Therefore, it was necessary to look for differences between them. After consulting Mr. Nicolas Cantos, Customs Agent Auxiliary, and Mr. Carlos Brussil, Customs Officer of the district of Cuenca. It was concluded that capacities have the same meaning.

- **Documentary Capacity Channel:** Consists in the verification of the Customs Declaration and its accompanying and support documents, contrasted with the information recorded in the computer system of the National Customs Service of Ecuador (Regulation of Book V of COPCI, 2017).
- **Intrusive Physical Capacity Channel:** It is the physical recognition of the merchandise, to verify its nature, origin, condition, quantity, weight, measure, value in customs and / or tariff classification, in relation to the data contained in the Customs Declaration and their accompanying and support documents, contrasted with the information recorded in the Computer System of the National Customs Service of Ecuador (Regulation of Book V of COPCI, 2017). Book V, Title II "The selection of the capacity will be made according to the analysis of risk profiles implemented by the National Customs Service of Ecuador" (SENAE, 2017).
- **Non-Intrusive Physical Capacity Channel:** This is a modality of physical recognition of merchandise, through the exclusive use of non-intrusive technological systems. This process is to "check the nature, origin, condition, quantity, weight, measure, value in customs or tariff classification of the merchandise." (León, 2015).

1.3.3. Ecuadorian Technical Regulation RTE INEN 013:2013. First Review.

This Technical Regulation establishes the requirements for the labeling³² of clothing, household linen and clothing accessories, whether manufactured domestically or imported and are marketed in the country, in order to prevent practices that may be misleading or cheating consumers (INEN, 2013).

The Regulation has the following conditions:

1.3.3.1. General Conditions

- Information on labels should not be false, misleading or deceptive.
- The information must be indicated on the labels with clear, visible, indelible and easy to read characters for the consumer³³.
- For the manufacture of permanent labels, any material that does not produce discomfort to the consumer should be used, without affecting its quality with the subsequent processes of washing and home or laundry ironing.
- The dimensions of permanent labels must be such as to contain the minimum information required in this Ecuadorian Technical Regulation.

1.3.3.2. Labeling Requirements

- Permanent labels.
- The information must be expressed in Spanish, notwithstanding the fact that the information is also presented in other languages.
- Prior to the importation or commercialization of national products, the permanent labels must be placed in a visible place or easily accessible to the consumer.

³² According to the INEN, labeling or labeling refers to any written, printed or graphic material that the merchandise must contain.

³³ According to the Organic Law of Consumer Protection, Article 2, "the consumer is any natural or legal person who as a final recipient acquires uses or enjoys goods or services, or receives an offer to do so."

- The permanent label must contain the following minimum information, which must be in accordance with the provisions of NTE INEN 1875:
- Size for garments and clothing accessories.
- Dimensions for household linen.
- Percentage of textile and / or leather fibers used.
- Corporate name and tax identification³⁴ (RUC) of the manufacturer or importer.
- Country of origin.
- Care and conservation instructions.
- The minimum required information can be placed on one or more permanent labels.

1.3.3.3. Conformity Evaluation Procedure

In accordance with Law 2007-76 of the Ecuadorian Quality System, national manufacturers and importers of the products contemplated in this Technical Regulation, prior to commercialization must obtain the product inspection certificate that demonstrates compliance with the requirements established in this document, issued by a certification body whose accreditation is recognized by the Ecuadorian Accreditation Service (SAE).

1.3.3.4. Surveillance and Control Authority

According to Law 2007-76 of the Ecuadorian Quality System, the Ministry of Industries and Productivity (MIPRO) the authorities have powers of supervision. They are in charge of carrying out the monitoring and control of compliance with the requirements of the Technical Regulation. In addition, they will demand the presentation of the respective inspection certificates and supervision from manufacturers and importers of the products contemplated in the present regulation.

³⁴ The Unique Taxpayer Registry (RUC) is a tool that registers taxpayers with the objective that they can carry out economic activities in the country.

1.3.3.5. Sanctions Regime

Suppliers of these products that fail to comply with the provisions of the aforementioned Technical Regulations will receive the sanctions provided for in the Law of the Ecuadorian Quality System and other current laws, depending on the risk it implies for users³⁵ and the seriousness of the breach.

1.3.3.6. Responsibility of Conformity Evaluation Entities

Certification entities that have issued erroneous inspection certificates or that have deliberately tampered with inspection certificate data will have administrative, civil, and criminal responsibility in accordance with the provisions of the Law of the Ecuadorian Quality System and other laws in force. In an interview with Dr. Juana Alvarado, notary of the Gualaceo canton, what is involved in civil, criminal and administrative responsibilities has been developed.

The civil responsibility is to impute to a person a reparative obligation because of the damage that has caused to another person, either in his personal integrity or in his goods. The responsible person is obliged to repair the damage caused to the victim. Civil liability can be transferred, that is, in case of death of the person responsible for a civil event, their heirs pay. The accused person can also assign responsibility to another person who pays for it, that's why it is not personal. In civil matters, the principle of typicity does not exist; it is enough that the act has caused damage. On the other hand, civil liability is that which civil servants and public officials incur by act or omission, in the exercise of their functions, have caused economic damage to their entity or the State, in breach of their duties, due to fraud or fault. The obligation of restitution is of a contractual and solidary nature, and the corresponding action prescribes ten years after the events that generate the damage occurred (Alvarado, 2017).

³⁵ In this case, users are considered the people who consume the merchandise that has been imported after having completed all the formalities.

Criminal responsibility, on the other hand, is the consequence derived from an act typified in a criminal law by an imputable subject and provided that said fact is unlawful. This responsibility is personal and non-transferable; only the person who committed the act can comply with the sanction. The sanctions to be complied with are generally of a corporal nature, that is to say, prison sentences, although there are also penalties for fines. Criminal responsibilities are only applicable to those facts that are forbidden and in the law prior to the act committed, according to the principle of legality. Criminal liability can be incurred by servants or public officials who, in the performance of their duties, have carried out an act or omission classified as a crime (Alvarado, 2017).

Administrative responsibility is assigned directly to the public servant's own activity, for acts or omissions that affect the legality, honesty, loyalty, impartiality and efficiency that must be observed in the performance of their jobs, positions or commissions, regardless of that the action affects or does not affect a third party, in which case civil liability or even criminal liability may arise. This responsibility is incurred by the servants and officials for having contravened the administrative legal system and the internal rules of the entity to which they belong. The labor or contractual link is current or terminated at the time of their identification in a process of control. Public servants, who, developed poor management, also incur functional administrative responsibility (Alvarado, 2017).

Additionally, for Mr. Nicolas Cantos, Customs Broker Assistant, the importers must have the three responsibilities in order to have duties in every sense and many consequences in case of non-fulfillment. For example, in civil liability the importer must respond or repair specific functions. Second, in penal responsibility, there is a prison penalty for having caused serious damages and an administrative responsibility definitive loss of labor position if an authority does not fulfill legal dispositions.

Conclusion

The historical background on importations and Ecuador's economy demonstrated we depend on natural resources exploitation that is why changing the productive matrix will improve national production by diversifying income sources. This process is being materialized. On the other hand, in the import process, as an important part in foreign trade, the OCES must comply with requirements and obligations so as not to harm the economy of the country; In addition, as a responsible way to meet the demand of the Ecuadorian consumer. That is why the main issues that are part of the import plan have been developed within this chapter, with the COPCI being the central regulatory body within this work, especially Books IV and V. And as mentioned, it is important to know, in the first place, the basic concepts about the importation of merchandise and the legal basis for this operation to start a plan in the correct way.

Chapter 2

Market Research in Gualaceo Town

Introduction

In order to determine a project's applicability, the importer should know the situation of the respective market to which it is destined. The market study shows the degree acceptance of the consumers of a good or service. In the same way, this research is an opportunity to expand knowledge about merchandise, suppliers, competition, etc., and thus, diagnose commercial activities' viability.

This chapter deepens the market segmentation, the research objectives and design, determination of population, and calculation of a sample. In addition, the survey, results and their respective analysis are presented. Different tables and figures have been developed to present the data collected through the Statistical Package for the Social Sciences system, which makes possible to label them clearly. In addition, there is a general analysis that explains the results of the surveys. I performed this study in order to be found preferences of specific segments. The survey leded important conclusions to continue with this import planning.

2.1. Market Segmentation.

"For the development of any project, import or export, it is important to first define to which segment it is directed" (Brussil, Import of clothing, 2017). In this case, it is important to select the target group³⁶ to which this research is intended. The acquisition of goods or services depends on several factors such as gender, age, income, tastes and preferences, etc. For this reason, garments for the female segment have been established for this work. It is necessary to segment the market in order to fix with more precision the niche of market. It must be divided and established taking into consideration the following variables:

2.1.1. Demographic Variables.

This is one of the most common variables for customer segmentation. "It divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation and nationality" (Klottler, 2007). For this project, I determined the following variables:

Age: From 15 to 35 years old.

Gender: Female.

Income: Equal or greater than a basic food basket.

2.1.2. Geographical Variables.

It is the division of the market in countries, regions, cities, cantons or neighborhoods to establish in a more precise way the segment to which the products are directed. By choosing the demographic variable it is easier to determine the type of products that the importer wants to market and identify the needs of the place to meet expectations. In this project, the canton of Gualaceo was selected, and thus the following data be considered:

³⁶ Target group is the target audience, that is, the segment of the people to whom the communication and marketing actions are directed (Soto, 2012).

- Location: Ecuador, in central-eastern zone of the province of Azuay.
- Weather: Temperate and cold. "They are featured by their average temperatures ranging from 6 degrees Celsius, in very cold periods and 25 degrees Celsius on sunny days" (Municipality of Gualaceo, 2017).
- Population: Urban and rural around 38,587 inhabitants.

2.1.3. Psychographic Variables.

These variables divide the market according to lifestyle³⁷, cultural features³⁸, personality³⁹, etc. In this case, the garments are aimed at young women, students, and workers who like fashion, trends and look good, but comfortable.

2.1.4. Behavioral Variables.

Such variables segment trading market with respect to brands, attitude toward the product, and frequency of use or reaction to it. That is, within this segment there is the consumer who has some knowledge of brands, in this case, Spanish brands. On the other hand, they can be medium to intensive users when purchasing clothing.

Table 1 Market Segmentation

Variable	Segment
Demographic	<ul style="list-style-type: none"> • Gender: Female. • Age: 15–35 years old. • Incomes: More than \$700
Geographic	<ul style="list-style-type: none"> • Gualaceo – Azuay – Ecuador.
Psychographic	<ul style="list-style-type: none"> • Teenagers and Women.
Conductual	<ul style="list-style-type: none"> • Interest in Fashion and Brand.

Source: (Klottler, 2007)
Author: Karla González.

³⁷ Lifestyle: expresses the pattern of activities, interests and opinions of the consumer in their environment (Klottler, 2007).

³⁸ The cultural characteristics are very influential in consumer decision making and according to Phillip Kotler are: "values, perceptions, desires and basic behaviors that a member of society learns from his family and other institutions."

³⁹ Personality refers to the unique characteristics of a person, which are lasting and consistent to their environment (Klottler, 2007).

2.2. Determination of the Problem.

What lead me to this research was the lack of analysis to determine the feasibility of importing women's apparel from Spain in order to can commercialize it in Gualaceo. In this case, I will examine the segment for determining if the project is viable or not.

On the other hand, the specific tasks are delineating the type of client and know how many would be willing to acquire clothing from Spanish brands. It is to determine possible competitors, tastes, preferences, prices, etc., to understand the acceptance of imported merchandise.

2.3. Research Objectives.

To determine the acceptance of European brands by women from 15 to 35 years of age of the town of Gualaceo and establish the feasibility of the plan for importing this merchandise.

- Identify tastes and preferences of the target group.
- Examine budget destined to consumption of this type of product.
- Delimit if results of my investigation agree or not with the development of the project.

2.4. Research Design.

The market research that will be carried out to determine the feasibility plan of the work is conclusive. Because, the exploratory research quantifies and takes data through surveys. They are called primary data. Once the data are obtained, the relationships between the variables will be established and quantified, developed and analyzed through the Statistical Package for the Social Sciences⁴⁰ (SPSS) program. At the same time, it is a cross-sectional descriptive investigation, since the information will be analyzed only once from a sample obtained.

⁴⁰ SPSS: is the leading statistical software, used to solve a wide variety of business and research problems (IBM, 2017).

2.5. Research Population Size.

The universe for the development of this research is made up of the female population of Gualaceo. As already mentioned, the referred town consists of 38,587 inhabitants. Fifty-five percent are women and 44.5% men; that is, there are approximately 21,429 women in the entire town. About 30.7% of women are between 15 to 35 years of age. Therefore, 6,579 women have been taken as a universe to carry out the research and avoid margins of error (INEC, 2001).

2.6. Sample Size.

- Standard Deviation (Z): 1.96 (Reliability Margin)
- Population (N): 6579
- Error Margin (e): 5%
- Occurrence Probability (p): 95%
- Failure Probability (q): 5%
- Sample Size (n).

This investigation had a finite population, because it is possible to know the number of participants. From this population a sample must be obtained, which allows knowing the ideal number of surveys that must be applied. To obtain said sample, the following formula must be made:

$$n = \frac{Z^2 * N * p * q}{(N-1) * e^2 + (Z^2 * p * q)}$$
$$n = \frac{1,96^2 * 6579 * 0,95 * 0,05}{(6579-1) * 0,05^2 + (1,96^2 * 0,95 * 0,05)}$$
$$n = 72,20$$

After calculations of the sample size, I decided to conduct 75 surveys in order to avoid a large margin of error and that data generates useful information.

2.7. Development of the Survey.

In the first place, the main objective for the development of this survey was to know the acceptance of the clothing of Spanish brands within the town of Gualaceo, specifically in women from 15 to 35 years of age. In addition, this feasibility plan is necessary to determine if the products satisfy potential customers at the end of importation process by fulfilling with all obligations, regulations and other formalities.

2.8. Applied Survey.

This is a survey for women between the ages of 15 to 35 to determine the applicability of a plan for importation of European brand clothing.

1. Age:

2. Occupation:

.....

3. Do you buy clothing made by international brands?

YES ☐ NO ☐

4. Which aspects do you consider the most when acquiring clothes?

Design	
Quality	
Brand	
Comfort	
Price	

5. How often do you buy clothing?

Once a Week	
Twice a Month	
Once a Month	
Every 3 Months	
Twice a Year	
Once a Year	

6. How much money do you spend buying clothing?

\$0 - \$50	
\$51 - \$100	
\$101 - \$200	
More than \$200	

7. What type of clothing do you like to use the most?

Formal	
Casual	
Informal	

8. What specific types of clothing do you like and buy the most? (It can be more than one item)

Jeans		Dresses		Bodies	
Pants		Shirts or Blouses		Sweaters	
Yoga Pants		T-shirts		Jackets	
Skirts		Tops		Coats	
Shorts		Sweaters		Underwear	

9. Do you know any of these European Brands?

Zara	
Bershka	
Hennes and Mauritz H&M	
Pull and Bear	
Stradivarius	
Mango	
Primark	

10. Would you like to wear clothing made by the brands mentioned above?

YES ☐ NO ☐

11. How alluring would you consider buying clothes from European brands at really affordable prices? Mark 1 for No Alluring and 5 for Very Alluring.

1	2	3	4	5
No Alluring	Low Alluring	Normally Alluring	Alluring	Very Alluring

12. Nowadays, what is your favorite clothing brand?

.....

Thanks for your collaboration!

2.9. Results of the Market Study.

The analysis of the data collected was carried out through 75 surveys. The results are detailed by question and by crossed variables.

1. Age

Table 2 Age

Age	Frequency	Percentage	Accumulated percentage
15	5	6,7	6,7
16	3	4,0	10,7
17	4	5,3	16,0
18	5	6,7	22,7
19	10	13,3	36,0
20	6	8,0	44,0
21	6	8,0	52,0
22	3	4,0	56,0
23	4	5,3	61,3
24	3	4,0	65,3
25	5	6,7	72,0
26	2	2,7	74,7
27	1	1,3	76,0
28	1	1,3	77,3
29	3	4,0	81,3
30	2	2,7	84,0
32	5	6,7	90,7
33	2	2,7	93,3
35	5	6,7	100,0
Tota l		100,0	

Author: González Karla

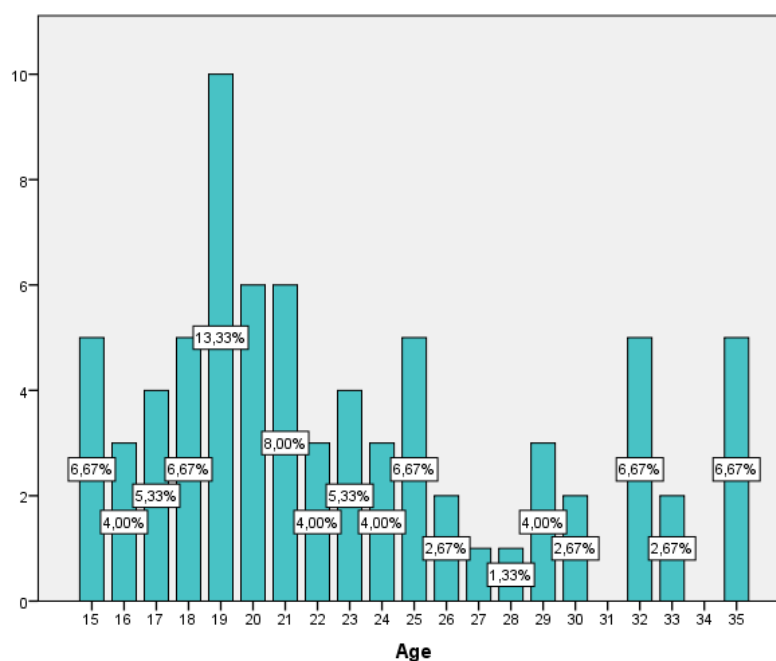


Figure #2 Age of study participants.

Author: González Karla

The target group for the development of this work were women from 15 to 35 years old. Because, the merchandise that is sought to be imported is apparel from the "fashion segment." Therefore, surveys of women of all ages within this group were conducted to obtain information that was more accurate and to know the different criteria.

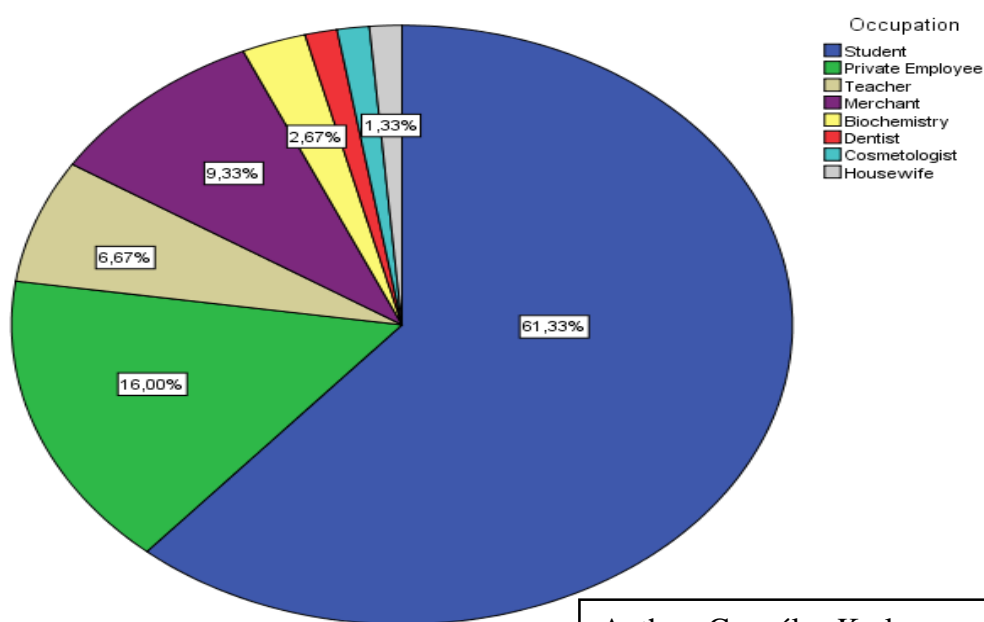
2. Occupation

Table 3 Occupation of study participants.

Occupation	Frequency	Percentage	Accumulated percentage
Student	46	61,3	61,3
Private Employee	12	16,0	77,3
Teacher	5	6,7	84,0
Merchant	7	9,3	93,3

Biochemistry	2	2,7	96,0
Dentist	1	1,3	97,3
Cosmetologist	1	1,3	98,7
Housewife	1	1,3	100,0
Total	75	100,0	

Author: González Karla



Author: González Karla

Figure #3 Occupation of study participants.

As can be seen in the table and in the graph, most of the people surveyed are students, with 61.33%; followed by private employees with 16%. This is basically due to the age range that has been chosen.

3. Do you buy clothing made by International Brands?

Table 4 International Brands

	Frequency	Percentage	Accumulated percentage
Yes	72	96,0	96,0
No	3	4,0	100,0
Total	75	100,0	

Author: González Karla

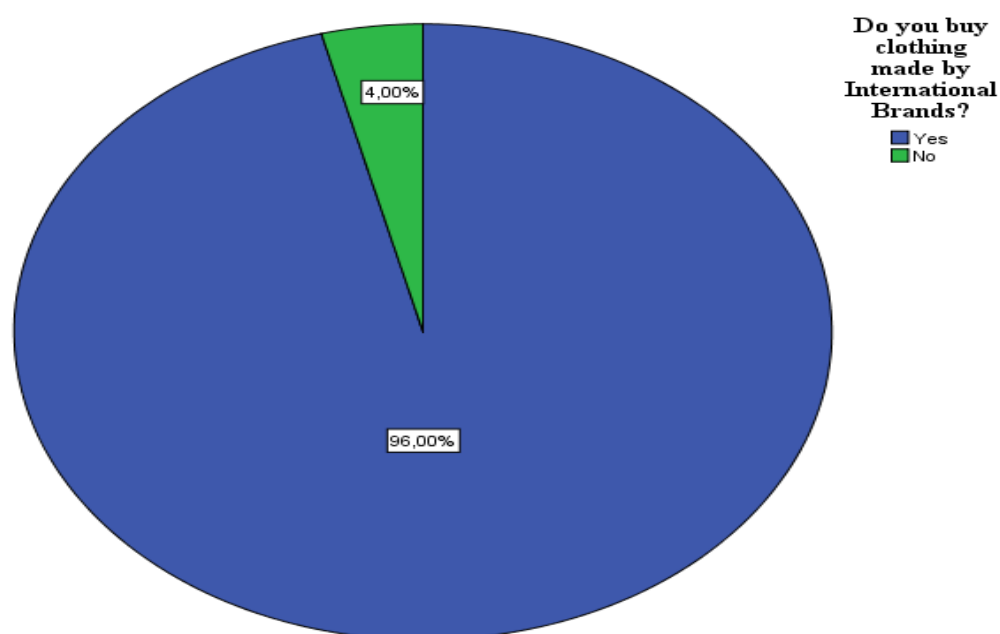


Figure #4 International Brands

Author: González Karla

Of the majority of the women surveyed, almost all of them acquire garments of international brands; 96% answered yes and only 4% answered no.

4. Which are the aspects you consider the most when acquiring clothes?

Table 5 Apparel aspects taking into account by participants.

Aspects in a Garment	Answers	
	Nº	Percentage
Design	43	18,9%
Quality	58	25,4%
Brand	25	11,0%
Comfort	51	22,4%
Price	51	22,4%
Total		100,0%

Author: González Karla

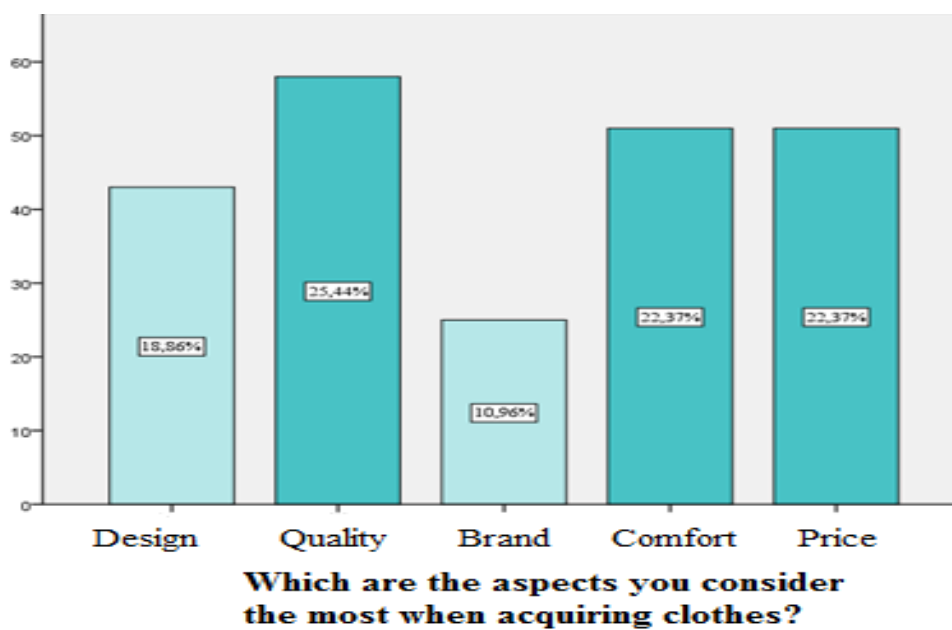


Figure #5 Apparel's aspects

Author: González Karla

The most important aspect for this segment of women has been quality, followed by comfort and the price of clothing. On the other hand, they do not consider the brand very important, just 11% have considered it.

5. How often do you buy clothing?

Table 6 Purchase frequency

	Frequency	Percentage	Accumulated percentage
Once a Week	1	1,3	1,3
Twice a Month	8	10,7	12,0
Once a Month	27	36,0	48,0
Every 3 Months	29	38,7	86,7
Twice a Year	10	13,3	100,0
Once a Year		100,0	

Author: González Karla

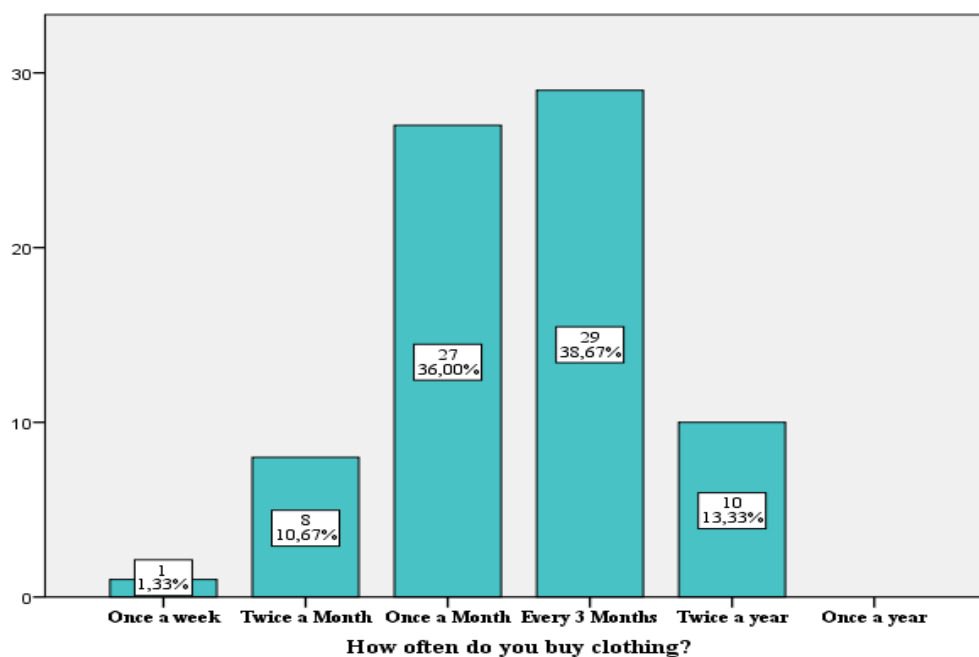


Figure #6 Frequency of purchase

Author: González Karla

Most have responded that they buy garments every three months or once a month, 38.7% and 36% respectively.

6. How much money do you spend buying clothing?

Table 7 Money spent by participants on clothing.

Valid	Frequency	Percentage	Accumulated percentage
\$0 - \$50	8	10,7	10,7
\$51 - \$100	29	38,7	49,3
\$101 - \$200	29	38,7	88,0
More than \$200	9	12,0	100,0
Total	75	100,0	

Author: González Karla

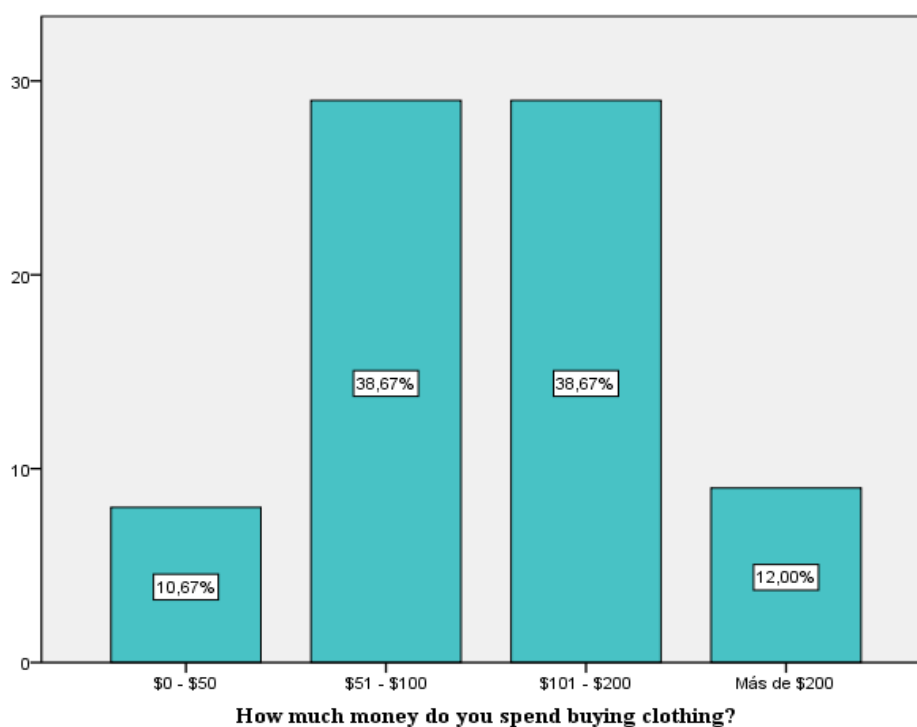


Figure #7 Amount of money

Author: González Karla

Most people spend around \$ 51 to \$ 100 or \$ 101 to \$ 200.

7. What type of clothing do you like to use the most?

Table 8 Favorite apparel

Valid	Frequency	Percentage	Accumulated percentage
Formal	8	10,7	10,7
Casual	52	69,3	80,0
Offhand	15	20,0	100,0
Total	75	100,0	

Author: González Karla

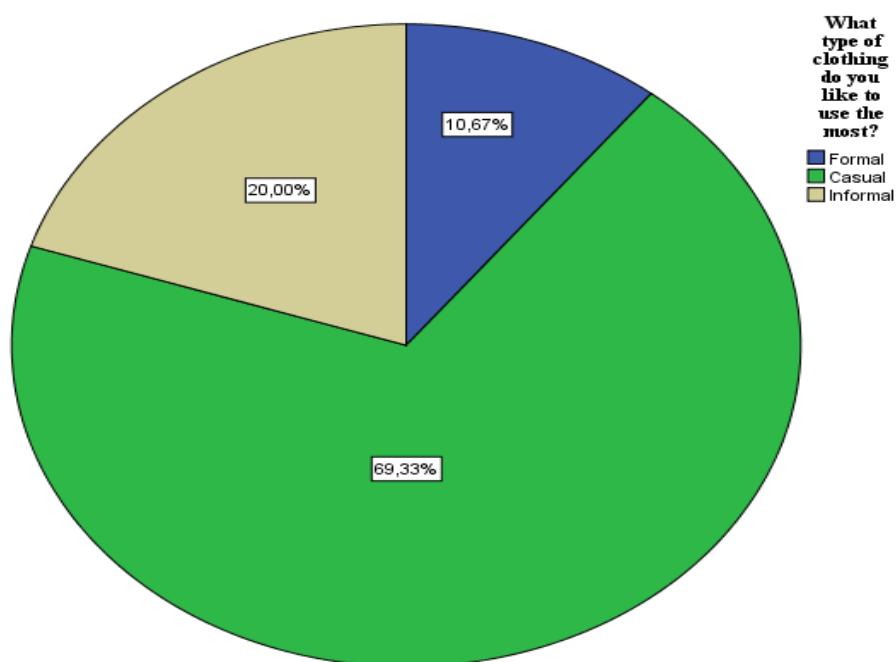


Figure #8 Type of apparel

Author: González Karla

More than half of the women surveyed prefer to wear clothes that allow them to put on casual attire. The 20% prefer to dress informally and only 10.6% prefer to wear formal clothes. What allows the choice of merchandise for import.

8. What specific types of clothing do you like and buy the most? (It can be more than one item)

Table 9 Type of garments.

Types of clothing	Answers	
	N°	Percentage
Jeans	69	92,0%
Pants	17	22,7%
Yoga Pants	13	17,3%
Skirts	6	8,0%
Shorts	12	16,0%
Dresses	13	17,3%
Shirts or Blouses	64	85,3%
T-shirts	25	33,3%
Tops	15	20,0%
Sweaters	29	38,7%
Bodies	6	8,0%
Sweatshirts	9	12,0%
Jackets	41	54,7%
Coats	24	32,0%
Underwear	49	65,3%
Total		

Author: González Karla

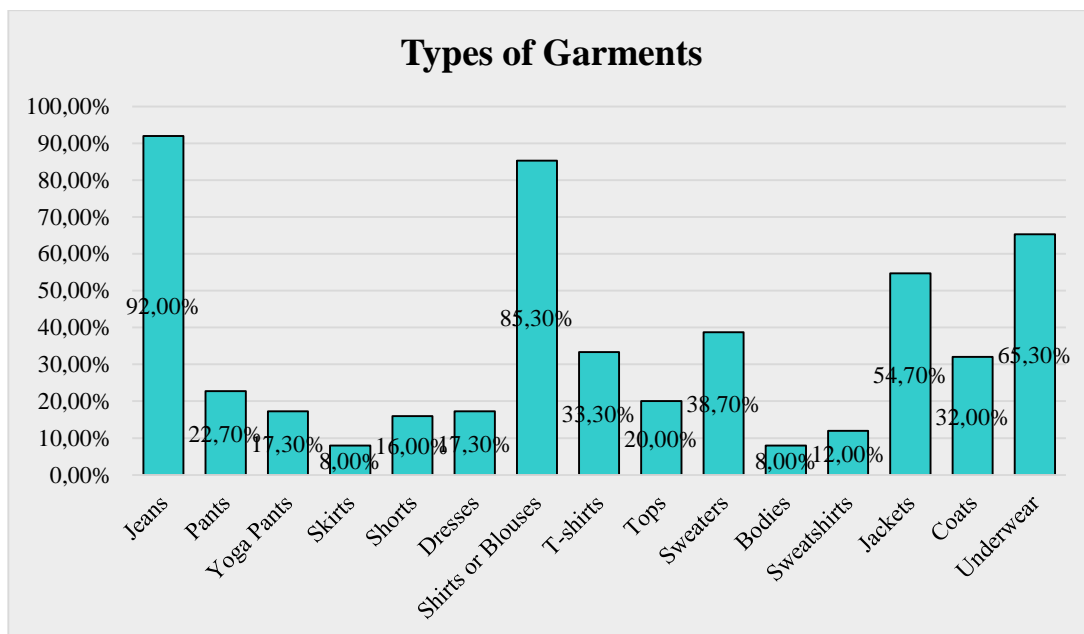


Figure #9 Clothing

Author: González Karla

Specifically, the favorite items of this segment are jeans, shirts, blouses, underwear, jackets, sweaters, and T-shirts.

9. Do you know any of these European Brands?

Table 10 European brands

European Brands	Answers	
	Nº	Percentage
Zara	65	86,7%
Bershka	42	56,0%
Hennes and Mauritz (H&M)	42	56,0%
Pull and Bear	21	28,0%
Stradivarius	16	21,3%
Mango	25	33,3%
Primark	3	4,0%
Any	8	10,7%

Author: González Karla

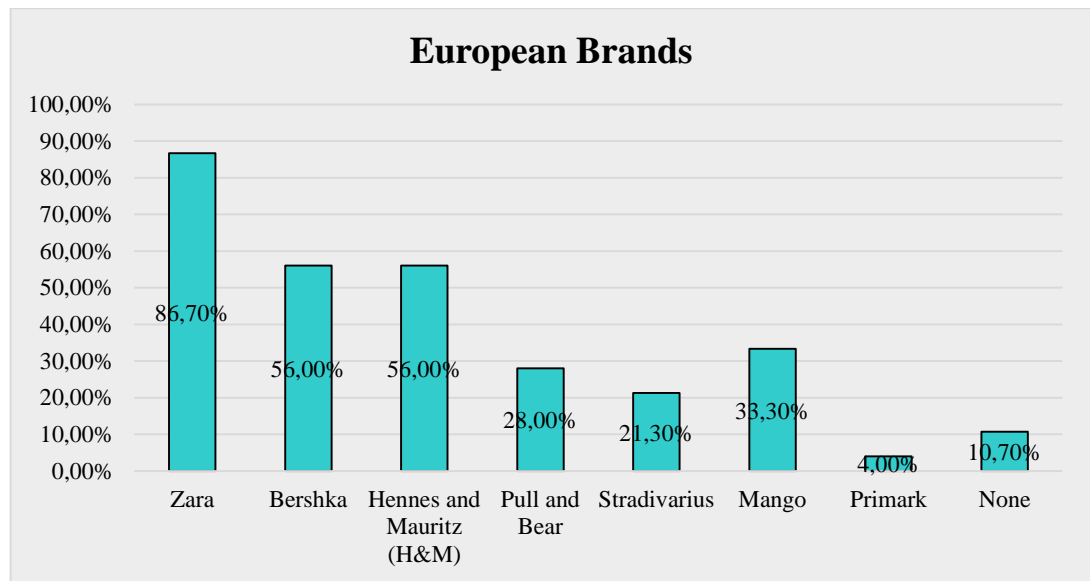


Figure #10 European brand preferences.

Author: González Karla

According to the survey, the most well-known brand is Zara, they also know about Bershka and H & M, which would help the choice of suppliers; while the lesser-known brand is Primark.

10. Would you like to wear clothing made by the brands mentioned above?

Table 11 Preferences

Valid	Frequency	Percentage	Accumulated percentage
Yes	72	96,0	96,0
No	3	4,0	100,0
Total		100,0	

Author: González Karla

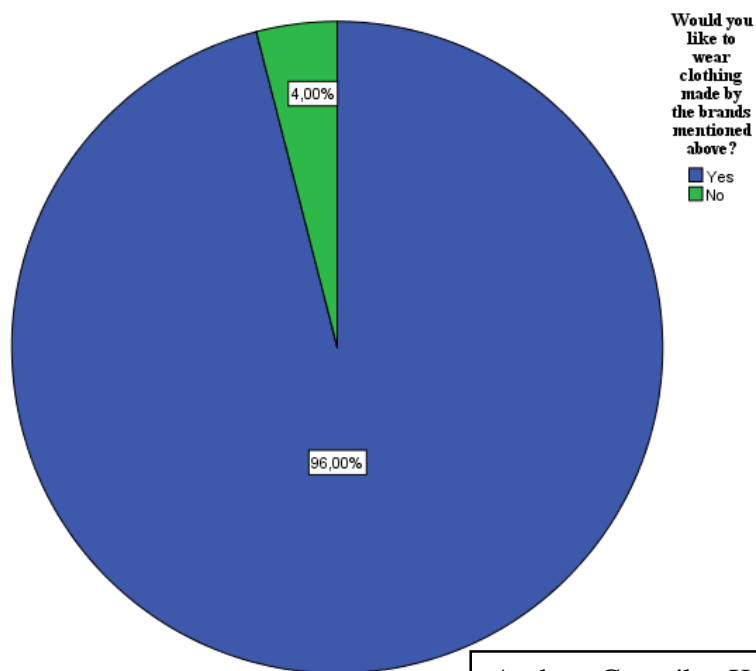


Figure #11 European brands acceptance

Most have responded that they would like to wear clothing from the brands that have been presented. Only three of the 75 people have responded negatively. Therefore, there is a good acceptance to this type of goods.

11. How alluring would you consider buying clothes from European brands at really affordable prices? Mark 1 for No Alluring and 5 for Very Alluring.

Table 12 Degree of acceptance

	Frequency	Percentage	Accumulated percentage
Low alluring	1	1,3	1,3
Normally alluring	4	5,3	6,7
Alluring	30	40,0	46,7
Very alluring	40	53,3	100,0
Total		100,0	

Author: González Karla

How alluring would, you consider buying clothes from European brands?

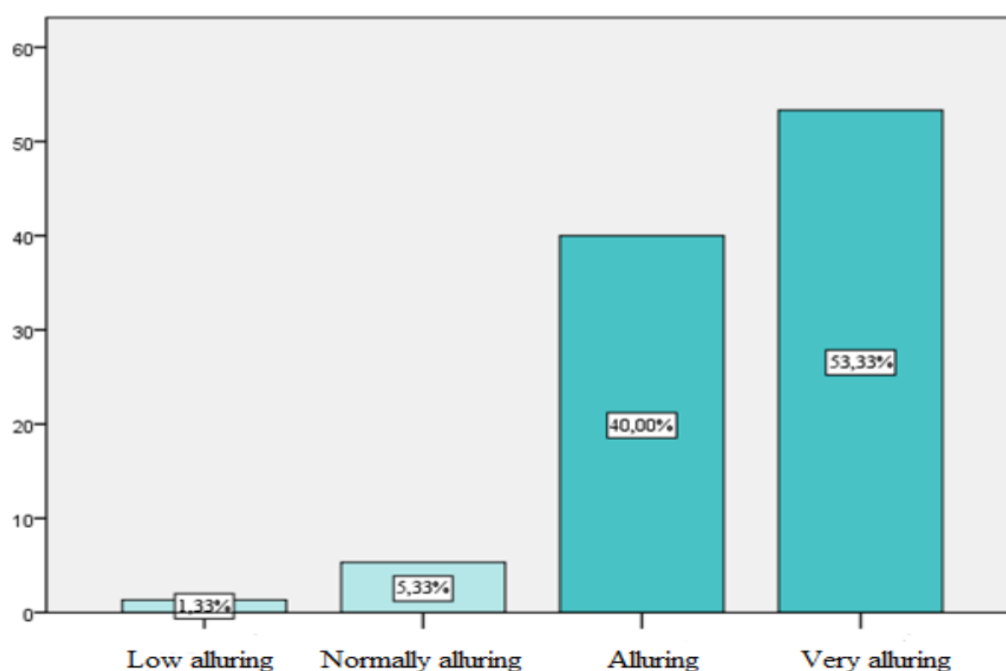


Figure #12 Degree of acceptance

Author: González Karla

The 53.33% of the answers indicate that it is very attractive to acquire clothes of European brands, at an accessible price. It must be considered that the brands chosen for this work have considerable prices and are recognized worldwide; only 1.32% seems unattractive.

12. Nowadays, what is your favorite clothing brand?

Table 13 Favorite brand

Valid	Frequency	Percentage	Accumulated percentage
Forever 21	13	17,3	17,3
Ann Taylor	2	2,7	20,0
Bershka	2	2,7	22,7
American Eagle	12	16,0	38,7
Aeropostale	7	9,3	48,0

Top Shop	1	1,3	49,3
Express	4	5,3	54,7
Nike	3	4,0	58,7
Zara	12	16,0	74,7
Banana Republic	4	5,3	80,0
Gap	2	2,7	82,7
Jessica Simpson	1	1,3	84,0
Mango	1	1,3	85,3
H&M	3	4,0	89,3
Victoria's Secret	1	1,3	90,7
MK	1	1,3	92,0
Any	6	8,0	100,0
Total		100,0	

Author: González Karla

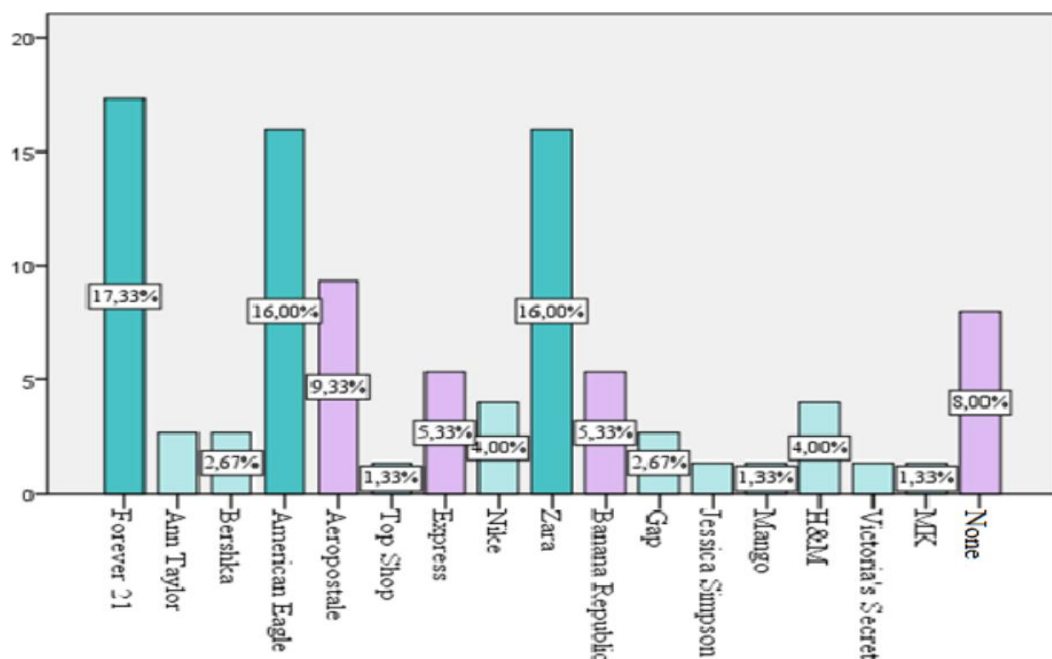


Figure #13 Favorite clothing brand.

Author: González Karla

In the world of fashion, there are many brands. When conducting the survey, 17.33% indicated that their favorite brand is Forever 21, this is characterized by its low prices and the large number of designs offered each season. Second, the preferred brand is

American Eagle, also a popular brand and considered to be of good quality. Zara is also one of the brands considered for this import project due to its quality, designs and wide reach worldwide.

2.9.1. Results of Crossed Variables.

Table 14 Cross-tab How often do you buy clothes? * How much money do you spend to buy clothes?

		How much money do you use to buy clothes?				Total
		\$0 - \$50	\$51 - \$100	\$101 - \$200	More than \$200	
How often do you buy clothes?	Once a Week	0	0	0	1	1
	Twice a Month	1	4	3	0	8
	Once a Month	5	9	10	3	27
	Every 3 Months	1	13	15	0	29
	Twice a Year	1	3	1	5	10
	Total	8	29	29	9	75

Author: González Karla

This table presents the frequency with which they buy clothing and the amount of money spent by the women who have been surveyed. Most acquire garments every three months spending from \$ 50 to \$ 200. Another considerable amount is the people who buy once a month, equally allocating from \$ 50 to \$ 200.

2.10. Data Analysis.

After this survey, I transformed data to the following information: The segment to which this work is oriented is young women who are students or professionals. Almost all women in this age range buy clothing from international brands. What they mainly look for in a garment is quality. They also focus a lot on the price and comfort. On the other hand, most make monthly or quarterly purchases, spending between \$50 to \$200. Most women prefer to dress casually with jeans, shirts, blouses, jackets, etc. The most well-known brand of the presented ones is Zara, which is also the favorite brand among the respondents. The most recognized brands are Bershka, H & M and Mango; being these brands the possible ones to import. The 96% of the sample is interested in wearing such clothing, it attracts a lot of attention. Additionally, 53.33% find it very attractive to have the possibility of acquiring these type of products in Gualaceo. Finally, there are many brands in this industry, so it is necessary to choose the preferred brand to recognize most appreciated clothing features.

Conclusion

In this second chapter, I presented a market study for diagnosing acceptance of European clothing for women from 15 to 35 years old in Gualaceo. In order to accomplish this objective, I investigated the number of the segment's inhabitants and I calculated the sample in order to execute the appropriate number of surveys. I performed all surveys successfully. In this investigation and analysis, I conclude there is great interest to acquire this type of merchandise. According to the data collected, most people find these products very attractive.

This information allows continuing researching and learning. The target group accepts the products, so I can continue developing the following chapters: choice of brands or suppliers and establishment of importation process. This a fundamental stage in order to know the target market and to make adequate decisions.

Chapter 3

Analysis and Establishment of Suppliers for Purchase of Clothing to be imported

Introduction

In this chapter, the tariff sub-items that will be used for the feasibility analysis are determined according to the market study carried out in the previous chapter. Once the tariff items were determined, it was investigated how much has been imported from Spain to Ecuador in 2014, 2015 and 2016 to have an understanding of the commercial relationship between the partner countries and these goods. Subsequently, the characteristics that are sought in the products to market them are established. The Trade Agreement of Ecuador with the European Union was analyzed, because it is one of the reasons why Spain was chosen to determine whether it is favorable for importers of this type of product. Afterwards, the companies that could be the possible suppliers were described and analyzed; after which the best options were chosen to consider them as suppliers of the goods under study in this project.

3.1. Establishment of Tariff Sub-headings.

Firstly, the type of merchandise to be imported had been determined according to data obtained through surveys. The selected merchandise are jeans, blouses, and coats; these three types of clothing were chosen to specify the tariff subheadings⁴¹ of the goods analyzed in this project. In total, I will work with three tariff items:

1. Jeans: 62.04.62
2. Blouses: 62.06.40
3. Coats: 62.04.33

Once trade items were established, it was pertinent to investigate how much the imports from Spain to Ecuador represent these clothing. See table 15.

Table 15 Imports from Spain to Ecuador

Certificate	Product Description	Importation Value in 2014	Importation Value in 2015	Importation Value in 2016
620462	Long pants, overalls, boxers, shorts, large shorts and cotton shorts.	\$42,000	\$38,000	\$46,000
620640	Shirts, blouses and shirt-blouses made of synthetic or artificial fibers, for girls or women.	\$41,000	\$51,000	\$50,000
620433	Coat-Jackets made of synthetic fibers, for women or girls.	\$85,000	\$56,000	\$37,000

Source: Trade Map (expressed in thousand dollars).
Author: Karla González.

⁴¹ Tariff subheadings are: "Subgroups, into which the goods of a consignment are divided, are identified by 6 digits in the Nomenclature of the Harmonized System of Designation and Codification of Goods" (Pro Ecuador, 2014).

As show in table 15, the value imported from Spain to Ecuador in women's trousers has increased from 2015 to 2016; On the contrary, in blouses and jackets the value has decreased by 44% and 2% respectively. Spain is among the 15 suppliers of clothing for Ecuador.

3.2. Features for Selection of Suppliers.

According to the analysis in the previous chapter, I consider taking into account the following features for selection of suppliers:

1. Quality
2. Price
3. Design

Quality: This is one of the most important characteristics for the target group. It refers to the durability, resistance, and the type of material used to make it. However, it is a concept that can have several interpretations, because it depends on the level of acceptance or compliance of the client. The dictionary of the Royal Spanish Academy defines the concept of quality as "the property or set of properties inherent in a thing that allows appreciating it as equal, better or worse than the rest of the same species."

Price: The amount of money charged for a product or service. In broader terms, the price is the sum of the values that consumers give in exchange for the benefits of having or using the product or service. For the choice of suppliers, the prices they offer must be taken into account so that the products are accessible in the target market.

Design: "A design is the end result of a process, whose objective is to find a suitable solution to a certain particular problem, but trying as much as possible to be practical and at the same time aesthetic in what is done" (Venemedia, 2015). The designs that are sought should be adapted to the lifestyle of women in the selected segment. The designs should be comfortable, but especially suitable for the climate of Gualaceo.

3.3. Benefits of the Multiparty Trade Agreement between Ecuador and European Union for my Project.

Spain was chosen because it is a member country of the European Union (EU) and it is where the headquarters of the garment brands under investigation are located. In addition, another important reason is that the Multiparty Trade Agreement with the European Union⁴² came into force on January 1, 2017. It is sought to determine if this Agreement could favor the present plan, since Spain was considered as the country of origin of the merchandise to be imported. It was necessary to include how the mentioned Agreement of Ecuador with the European Union influences foreign trade.

The merchandise of this project are clothing, specifically the three mentioned items. These items within the Commercial Agreement are included in category "5" and according to Annex IV, Section D, Ecuador's tariff elimination schedule for goods originating in the EU, point 3: "Customs duties on originating goods established in tariff elimination category 5 shall be eliminated in six equal stages, which shall begin on the date of entry into force of this Agreement. The other stages will be carried out each January of the following years, after which these goods will be free of tariffs." In order for the benefits of the Agreement to take effect, the goods to be imported must have a certificate of origin and supporting document that allows verification of the origin of the goods.

After the investigation, it was determined that the Trade Agreement with the European Union would present more visible benefits for long-term clothing importers. The tariff elimination has begun but will not affect national production.

⁴² The Trade Agreement between the European Union and Ecuador entered into force on January 1, 2017. This Agreement made Ecuador the third Andean country to integrate this Multiparty Agreement formed by Colombia and Peru since 2013. The Agreement constitutes a milestone and creates a stable and predictable framework to strengthen trade and investment between both parties (Delegation of the European Union in Ecuador, 2017).

Table 16 Schedule of Concession of the Multiparty Commercial Agreement between Ecuador and European Union

		FROM JANUARY 1st, 2017 (ENTRANCE DATE INTO FORCE)	FROM JANUARY 1st, 2018	FROM JANUARY 1st, 2019	FROM JANUARY 1st, 2020	FROM JANUARY 1st, 2021	FROM JANUARY 1st, 2022 ONWARDS
Trading Code	Description	Tariff to be collected	Tariff to be collected	Tariff to be collected	Tariff to be collected	Tariff to be collected	Tariff to be collected
620462	Long pants, pants with breastplate, boxers and cotton shorts.	25	20	15	10	5	0
620640	Camisas, blusas y blusas camiseras, de fibras sintéticas o artificiales, para mujeres o niñas. Shirts, blouses and shirt-blouses made of synthetic or artificial fibers, for women or girls.	25	20	15	10	5	0
620433	Coat-Jackets made of synthetic fibers, for women or girls.	25	20	15	10	5	0

Source: Bulletin N°: 045-2017 SENAE.
Author: Karla González.

The previous schedule shows the annual relief to be made to the items included in this study. This is a gradual procedure so as not to violate national production; therefore, it is considered that the benefits of the Agreement would be perceived in the long term. Nowadays, it would not represent an attraction for the importers of these items as already mentioned. According to Cristian Muñoz the Engineer in Foreign Trade and International Business of the University of the Armed Forces - ESPE "the table presented contains the gradual elimination of safeguards and it indicates how they will be eliminated completely in six years. This does not have to do with the ad valorem and specific tariff. Those are always maintained and they seek to protect the Ecuadorian industry."

3.4. Analysis of suppliers.

I choose five companies that are dedicated to the marketing of clothing in Spain. Then, there was a review of each brand to determine the best option as a provider.

1. Bershka: This enterprise was born in 1998 as a new brand of the Inditex Group⁴³, one of the largest fashion distributors in the world. Bershka has a sales area of more than 455,000 square meters. In itself, the company makes the designs, manufactures, distributed and sells of fashion in their establishments. Bershka's target is young people who know the latest trends. "Bershka takes advantage of the flexibility of its business model to adapt to the changes that can occur during campaigns and, in this way, react to them with new products in stores in the shortest possible time." (Bershka, 2017) This company offers good quality products at affordable prices, in addition the variety of models and trends are very attractive to consumers. It has great reach worldwide, since in 18 years it has reached more than 70 countries.

2. Stradivarius: This Company emerged in 1994 as part of the Inditex Group, and today designs thousands of clothing in Spain and distributes them exclusively

⁴³ Inditex is one of the largest fashion distribution companies in the world. This group is made up of eight brands: Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe. The company emerged in 1963 by Amancio Ortega. Since then the company has evolved but the idea of considering customers the center of everything has remained unchanged (Inditex Group, 2017).

in its own stores. It is present in more than 60 countries around the world. The constant renewal of its collections and the ability to read the tastes of customers are the key to its success. "Their stores are spacious and have a youthful atmosphere; they offer a wide range of possibilities with an informal and imaginative style. In design, fabrics and colors, Stradivarius is always committed to the latest trends in fashion" (Sobrado, 2015).

- 3. Pull and Bear:** According to its official site, the company started in 1991 as a strategy of the Inditex Group for the segmentation of markets in Spain, with the aim of becoming international to dress young people committed to their environment. They intend to reach "young people who dress in a relaxed way, fleeing stereotypes and who want to feel good about what they wear. That's why Pull & Bear gathers the latest international trends" (Pull and Bear, 2017). This brand offers comfortable and easy-to-use clothing. In addition, the renewal of its offering is constant; twice a week all the stores of this company receive new merchandise. Pull & Bear has around 970 stores in 72 markets. Pull and Bear offers quality products that are accessible to its market niche; designs, as already mentioned, are in line with the trends and are very comfortable.
- 4. Zara:** This is one of the leading companies of the Inditex Group and one of the most important international fashion companies. It was founded in 1975 by Amancio Ortega in A Coruña, Spain. The key for the brand is the customer and integrates the designs, manufacture, distribution and sale directly through their establishments. Zara prices are a little higher compared to those of the aforementioned brands. However, their quality is higher. Their designs are also very attractive and unique. In summary, this is one of the most globally recognized brands.
- 5. Primark:** This is the only company that does not belong to the Inditex group. Primark opened its first store in 1969 in Ireland. Today, there are 42 Primark's stores in Spain, surpassing the number of stores in Ireland. This company offers a wide variety of products at very attractive prices; its motto has always been to offer good quality at a comfortable price.

3.5. Selection of Suppliers

After investigating each of the companies, analyzing their quality, price and designs I decided to work with three brands: Bershka, Stradivarius and Pull and Bear. That decision was made because these three brands have affordable prices, designs that follow the latest trends and good quality products. It should be noted that these companies sell their products directly. Bershka was contacted in Spain, and they mentioned that none of the brands of the Inditex group has different intermediaries or suppliers. They expressed that they are the ones who distribute the merchandise, thanking the interest for the brand. Therefore, the purchase of the products must be done directly with each of the brands. Therefore, it is necessary to have a purchasing agent⁴⁴ to acquire the merchandise to be imported. This means that the importer must assume the costs of internal transport, internal insurance, handling of the goods and transportation to Ecuador. Therefore, the foreign trade term corresponds to the incoterm EXW (In the factory). This means that the seller makes the delivery when he puts the goods at the disposal of the buyer in the premises of the seller or in another place designated by the same.

The seller has no obligation to the buyer to formalize a transport contract, as well as manage an insurance contract. However, the seller must provide the relevant insurance or transport information to facilitate the purchaser's contracting. On the other hand, the seller must put the goods at the disposal of the buyer at the agreed point and date, and not loaded in any collection vehicle. Therefore, the seller bears all risks of loss or damage caused to the merchandise until it has been made available to the buyer (Pro Ecuador, 2017).

On the other hand, these brands were chosen because they belong to the same group, Inditex, and they offer payment facilities by acquiring the "Affinity Card"⁴⁵ free of charge. This card allows its customers to make payments in installments, and obtain

⁴⁴ Purchasing broker is the person who performs the search, selection and purchases of the products; according to client requires; to meet all the needs. They are responsible for: visiting industries, establishments, defining quality parameters, negotiating the most competitive prices and making the purchase itself. They advise the client; also, they coordinate the transport of the goods (Karmen C, 2011).

⁴⁵ Affinity Card is a payment card for the Inditex Group stores in Spain, which offers many advantages when making purchases. The advantages of this card are: flexibility in the form of payment, no maintenance fee, exclusive campaigns, online purchases, etc. (Inditex Group, 2017).

discounts. In itself, the three brands meet the characteristics that have been raised, and will offer more variety in the merchandise.

Conclusion

After having developed this chapter it can be pointed out that finding suppliers was not an easy matter. It required research and knowledge of the type of products intended for the market. In this case, Spain was chosen because it is the headquarters of the brands that are being top in the world of fashion today and because of its great reach worldwide. Also, because it is an opportunity to bring this type of merchandise to Gualaceo, due to the fact that its market lacks these type of products. Although these brands are already positioned in the cities of Quito and Guayaquil. These brands have not become a trend in the smaller cities and towns like the one chosen. However, this is an advantage to be able to introduce this type of clothing in this market niche. The choice of brands was made based on quality, price and design; and the three brands: Bershka, Stradivarius and Pull and Bear comply with them. In addition, with a person in charge of purchases in Spain it would be possible to acquire the selected clothing. It would be provided with payment facilities, as already mentioned through the "affinity card" of the Inditex group. Finally, it is necessary to consider that the importer must assume the costs of internal transport and transportation from Spain to Ecuador. Since no company of the Inditex group has intermediaries or suppliers, they sell directly from their own establishments. Regarding the subject of the Trade Agreement of Ecuador with the European Union, it is significant, but it would be much more attractive for importers in the long term since the tariff reduction in this type of merchandise is progressive. The importer should present all the requirements such as the certificate of origin to get the tariff preferences.

Chapter 4

Procedure for Importation of Clothing to Ecuador

Introduction.

In this chapter, the procedure for importing clothing is developed. It is clearly explained how a natural or legal entity must proceed to perform this operation. First, the pre-import requirements are explained. Next, the two restrictions that the clothing has are shown. It also adds the utility of obtaining a certificate of origin for the commercial relationship between Ecuador and Spain by the Multiparty Agreement with the European Union. After that, the specific steps for the import are detailed from the registration of the importer before the SENAE to the exit of the merchandise for its commercialization. Subsequently, the calculation of taxes on foreign trade of this type of merchandise is carried out so that the feasibility analysis that will be developed in the next chapter of the present work is possible. Finally, the logistics are described, including the time it would take for this entire process, and verify if it is convenient to implement by following the current legal regulations.

4.1. Importation Requirements.

The import process is a foreign trade activity that requires several steps and fulfills specific requirements for the operation to be a success. Therefore, all requirements must be met in a precise manner. First, the person wishing to import must obtain the electronic signature or token⁴⁶ and be registered as an importer before the SENAE through its Ecuapass Information System. Here is how to proceed to meet these first two requirements.

⁴⁶ It is a string of characters used in complex programming, that chain is magnetized in a device delivered by the Civil Registry or Security Data, an element that is essential to electronically sign electronic documents (Ochoa, All Trade Ecuador, 2015).

4.1.1. Electronic Signature.

This refers to the data in electronic form consigned in a data message that can be used to identify the owner of the signature in relation to the data message and indicate that the owner of the signature approves and recognizes the information provided (Electronic Commerce Law, Electronic Signatures and Data Messages, 2002).

4.1.1.1. Functions of the electronic signature.

1. Guarantee the authenticity of the information (whoever sends it is who it claims to be).
2. Integrity of the message, the information is true and has not been manipulated.
3. Confidentiality.

To obtain the electronic signature, a series of requirements is needed depending on whether the owner of the firm is a natural or legal entity.

4.1.1.2. Requirements for natural person.

- Copy of the color certificate and voting certificate.
- Copy of the basic service form that indicates the address that appears in the single taxpayers (RUC).

4.1.1.3. Requirements for Juridical Person or Entity.

- Copy of the color certificate and voting certificate of the Legal Representative of the entity.
- Copy of the appointment of the legal representative.

4.1.1.4. Issuance and certification entities in Cuenca.

There are two issuing and certification entities in the city of Cuenca, which provide the token.

1. Security data, Fedexpor: It is located in the Chamber of Industries, on Florencia Astudillo Avenue, Parque de la Madre sector. It is important to know that this entity requests affiliation to the Chamber of Commerce.

2. Central Bank: Initially, the issuing and certification entity was the indicated bank, but then the rights were assigned to the Civil Registry by presidential mandate. However, the Central Bank maintains ownership of the website.

In both entities, a form is submitted, which must be filled out and uploaded electronically together with the aforementioned requirements. After this procedure and with the due acceptance of the issuing and certification entities, the electronic signature is removed together with the respective code.

4.1.1.5. Electronic signature Extinction.

According to article 19 of the Law of Electronic Commerce, Electronic Signatures and Data Messages, the electronic signature is extinguished for the following reasons:

- Will of its owner.
- Death or incapacity of its owner.
- Dissolution or liquidation of the legal entity, holder of the signature.
- For judicially declared cause.

In addition, the ejusdem article states that the extinction of the electronic signature does not exempt the holder from the previously contracted obligations.

4.1.1.6. Loss of password.

In case the user does not remember the password of the private key, the user can go to the Decentralized Administration of the Civil Registry Agencies authorized by the Central Bank of Ecuador, where the service is provided by appointment. The following documentation is required. Original of any valid official identification with photograph and signature issued by the taxpayer or legal representative. The user can omit the presentation of the official identification, in which case the user's identity will be

confirmed through a fingerprint (Central Bank of Ecuador, 2016). If at the time of signing electronically, the password is entered incorrectly in 5 attempts, it is blocked and the importer have to figure it out this problem in the same entities (Civil Registry - Security Data) with a request for recovery of the signature key.

4.1.1.7. Electronic signature Cost.

Table 17 Electronic signature

Product or Service	Validity	Rate USD	Value with IVA
Token Electronic signature.	2 years	\$49.00	\$54.88
Filed Electronic signature.	2 years	\$27.00	\$30.24
Renewal	2 years	\$18.00	\$20.16
Token Device Only.		\$22.00	\$24.64

Source: Civil Registry of Ecuador.
Author: Karla González.

4.1.2. Importer registration before Ecuapass.

Step 1: Enter the SENAE website: www.aduana.gov.ec.



Figure #14 Step one - SENAE website.

Step 2: Services for OCE

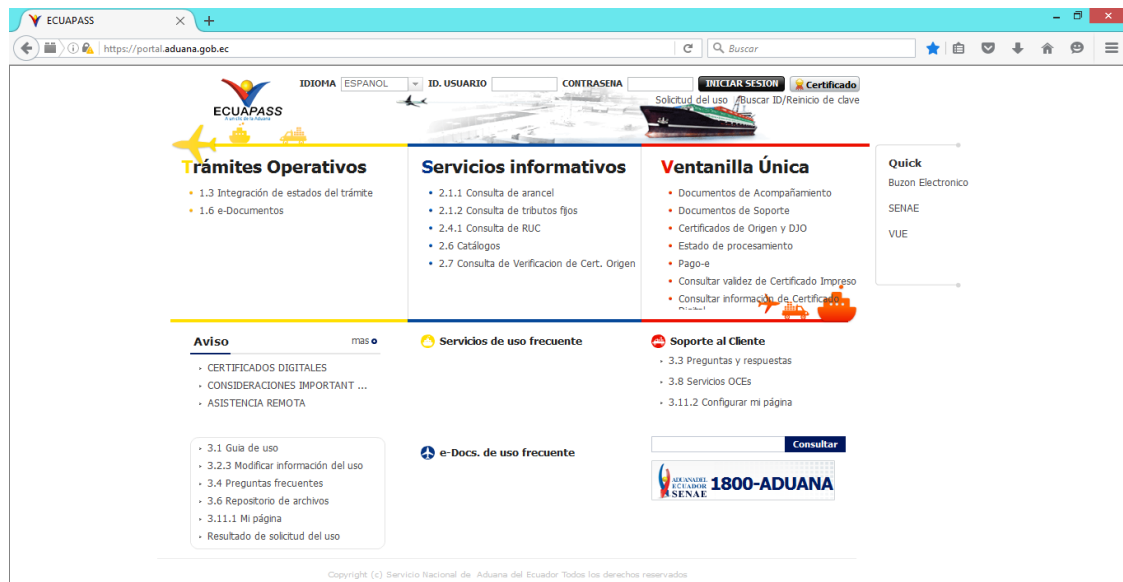


Figure #15 Step two - Services for foreign trade operators.

Step 3: Application for use

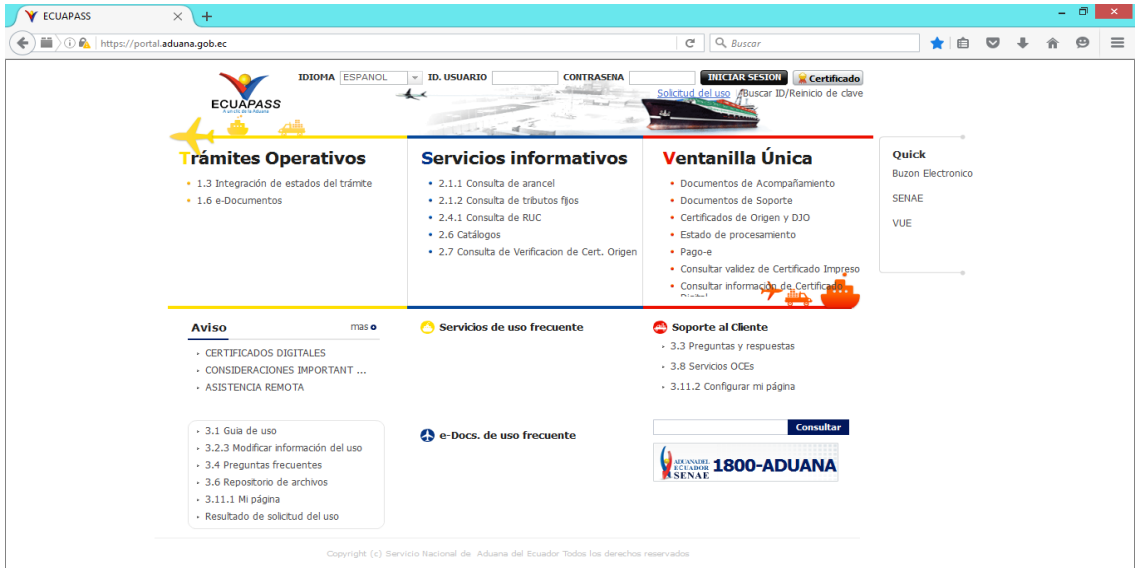


Figure #16 Step 3 – Application for use.

Step 4: Representative's request

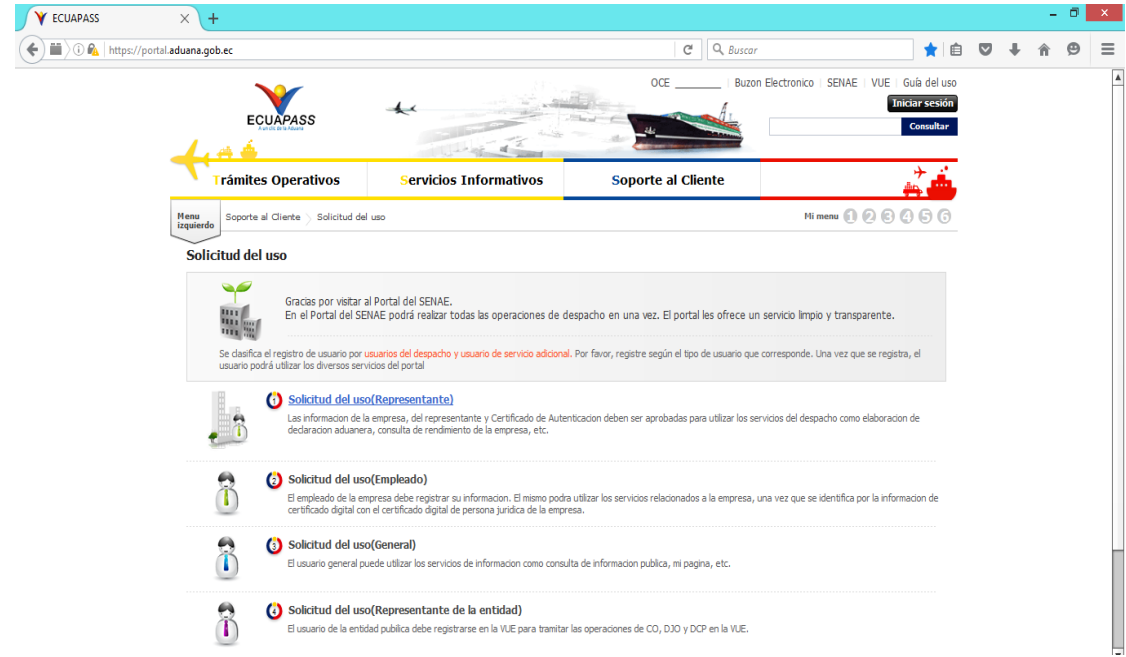


Figure #17 Step 4 - Application for use (representative).

Step 5: The Ruc is loaded

ECUAPASS

https://portal.aduana.gob.ec

OCE Buzón Electrónico SENAE VUE Guía del uso

Iniciar sesión Consultar

Trámites Operativos Servicios Informativos Soporte al Cliente

Menú izquierdo Soporte al Cliente Solicitud del uso

PI menú 1 2 3 4 5 6

Solicitud del uso (Representante)

Información de empresa

* RUC empresa

Razón Social

Dirección de empresa

Teléfono empresa

Información de representante

* ID usuario

* Doc. Identificación CEDULA DE IDENTIDAD

* Nombre Usuario

* Contraseña

* Confirmación de Contraseña

* Preguntas de Clave1 ¿MES QUE TE CASASTE?

* Respuesta de Clave1

* Preguntas de Clave2 ¿IGLESIA DONDE SE CASO?

* Respuesta de Clave2

* Preguntas de Clave3 ¿NOMBRE DE SU CIUDAD PREFERIDA?

* Respuesta de Clave3

* Provincia --Selección--

* Ciudad --Selección--

* Dirección

* Teléfono1

* Teléfono2

* Celular CLARO

* Fax

* Correo Electrónico

Figure #18 Step 5 - Single taxpayer number (RUC)

Step 6: Information is filled.

ECUAPASS

https://portal.aduana.gob.ec

OCE Buzón Electrónico SENAE VUE Guía del uso

Iniciar sesión Consultar

Trámites Operativos Servicios Informativos Soporte al Cliente

Menú izquierdo Soporte al Cliente Solicitud del uso

PI menú 1 2 3 4 5 6

Información de representante

* ID usuario

* Doc. Identificación CEDULA DE IDENTIDAD

* Nombre Usuario

* Contraseña

* Confirmación de Contraseña

* Preguntas de Clave1 ¿MES QUE TE CASASTE?

* Respuesta de Clave1

* Preguntas de Clave2 ¿IGLESIA DONDE SE CASO?

* Respuesta de Clave2

* Preguntas de Clave3 ¿NOMBRE DE SU CIUDAD PREFERIDA?

* Respuesta de Clave3

* Provincia --Selección--

* Ciudad --Selección--

* Dirección

* Teléfono1

* Teléfono2

* Celular CLARO

* Fax

* Correo Electrónico

* Confirmación de correo electrónico

* Posición REPRESENTANTES

* SENAE Correo Electrónico

* Recibir mensaje SMS ☒ Recibir ☐ No recibir

Tipo de OCEs AGENTE DE ADUANA

Agregar Eliminar

No	Código de OCEs	En el informe se clasifican	Solicitar nuevo código	Fecha de inicio	Fecha de fin
1	01901090	AGENTE DE ADUANA	HABILITADO	20/05/2002	31/12/2018

* Identificación única de certificado digital

Nombre del archivo Tamaño del archivo Adjuntar archivo

KByte Cargar Descargar

Figure #19 Step 6 – Information form.

Step 7: Pay special attention if it is for customs broker, importer, exporter, shipping line, etc.

The screenshot shows the ECUAPASS web portal at <https://portal.aduana.gob.ec>. The registration form includes the following sections:

- Personal Information:** ID.usuario, Doc. Identificación (CEDULA DE IDENTIDAD), Nombre Usuario, Contraseña, and Confirmación de Contraseña.
- Security Questions:** Preguntas de Clave1, Preguntas de Clave2, and Preguntas de Clave3, each with a corresponding Respuesta de Clave.
- Location:** Provincia (dropdown), Ciudad (dropdown), Dirección, Teléfono1, and Teléfono2.
- Contact Information:** Celular (dropdown), Fax, Correo Electronico, and Confirmación de correo electronico.
- Position and Preferences:** Posición (dropdown), Recibir mensaje SMS (radio buttons for Recibir and No recibir), and SENAE Correo Electronico.
- OCE Type Selection:** A dropdown menu for 'Tipo de OCEs' is open, showing a list of options: AGENTE DE ADUANA (selected), LINEA NAVIERA, LINEA AEREA, TRANSPORTISTA TERRESTRE, DEPOSITO TEMPORAL, and DEPOSITO ADUANERO. Buttons for 'Agregar' and 'Eliminar' are visible.
- File Upload:** A table for uploading files with columns for 'Nombre del archivo', 'Tamaño del archivo', and 'Adjuntar archivo'. It includes 'Cargar' and 'Descargar' buttons.

Figure #20 Step 7 – Type of OCE (Foreign trade operator)

Step 8: The electronic signature and the password are loaded; then it is recorded together with all the documents electronically.

4.2. Importation and nationalization process.

For the development of this topic, I interviewed Luis Felipe García an engineer former customs officer of the District Office of Cuenca and current Assistant Agent of Customs of Engineer Germán Cantos, in Tramiasto. García mentioned that apparel importation process has two types of restrictions⁴⁷, which are The Ministry of Industries and Productivity (MIPRO)⁴⁸ and the Ecuadorian Normalization Service (INEN)⁴⁹

⁴⁷ Restrictions on imports are the government provisions that obstruct the free entry of goods to a specific country, placing income requirements to products or services such as: certain rules or certain characteristics. They refer to the requirements that a certain product must meet for its nationalization (Pro Ecuador, 2017).

⁴⁸ The Ministry of Industries and Productivity (MIPRO) is an institution that seeks to formulate and execute public policies for the transformation of the industrial specialization pattern. In this case one of its services is to provide users with the issuance of registers of textile importers, which enable said process (MIPRO, 2017).

⁴⁹ Ecuadorian System of Normalization (INEN), is in charge of Standardization, Regulation, etc., which contributes to the improvement of competitiveness, health and consumer safety. In particular its task is: to plan, organize, direct, control and evaluate the parameters of the quality and safety of the products and

Next, each one will be referred to and the importer will be indicated. In first place, the importer registration must be done in MIPRO, and according to its website, the procedure that grants registrations to natural and legal entities so that they can carry out import activities of textiles is regulated in Resolution N ° 401 of the COMEX, published in the Official Register No. 223, of November 30, 2007.

On the other hand, it is important to bear in mind that SENA, through Bulletin No. 415-2017, announces that since January 4, 2018, the Importer and Exporter Registries can be made through the Ecuadorian Single Window (VUE). In addition, it stresses that the Importer and Exporter Registry approved by MIPRO is not related to the OCES Registry in the Ecuapass, because the Registry approved by MIPRO is for those subheadings that are restricted by that entity for submission.

Requirements for natural entity.

1. Payroll of the products to be imported under the tariff subheadings object of this registry.
2. Copy of the active Taxpayer Registry (RUC).
3. SRI certificate of tax compliance.
4. Simple copy of the Trade Registration.
5. Simple document of the "Import Report" (Obtained from the Business Information System - SISEMP). It must be completed and signed by the legal representative of the company or its delegate.

Requirements for legal entity.

1. Payroll of products to be imported under the tariff subheadings object of this registry.
2. Copy of the active Taxpayer Registry (RUC).

services that are commercialized in the country, through the development of necessary normative documents in accordance with the technological advance, of such so that these documents are constituted in the technical-legal reference point that guarantees order in the activities to be developed (INEN, 2009).

3. SRI certificate of tax compliance.
4. Original and simple copy of the public deed of incorporation of the company, registered in the Mercantile Registry and of capital increase or amendments to the bylaws, if any (Present to the institutional notary⁵⁰).
5. Simple copy of the appointment of the legal representative, registered in the Commercial Registry.
6. Simple document specifying the name of the authorized declarant who performs the import procedures.
7. Simple document specifying the description of the type of product that is required to be imported, as well as the corresponding tariff sub-item.
8. Form "Import Report" (Obtained from the Business Information System - SISEMP). It must be completed and signed by the legal representative of the company or its delegate.

As I already mentioned, this registry has now been implemented in the Ecuadorian Single Window (VUE). It must be borne in mind that this procedure has no cost. According to Resolution No. 401 of COMEX, of November 30, 2007: "It is considered necessary to implement measures to counteract the negative effects caused by the increase of imports under unfair conditions⁵¹, contraband⁵² and the undervaluation⁵³ of these sectors."

The purpose of the importer's registration before MIPRO is a non-tariff barrier because it is not a tax for the entry of merchandise into the country. Rather, it is a strategy to control imports that do not comply with the provisions of current legal regulations. In itself, it is a measure of protection for the strategic sectors of the country. Therefore, it is mandatory

⁵⁰ Institutional notary is the person whose job it is to check and authenticate, after a comparison between the original one that is shown by the administrated and the copy presented, as well as the fidelity of the content of the latter for its use in the different procedures (Cedeño, 2016).

⁵¹ Unfair conditions are the processes in which the importation of merchandise is carried out under conditions of price discrimination or subsidies in the exporting country or in the country of origin, which cause damage to a branch of domestic production of identical or similar goods (García M. E., 2012).

⁵² Contraband is the clandestine entry or extraction of goods in the customs territory; as well as mobilize, disembark, unload, throw, hide or extract them before undergoing customs control. Contraband is also considered to violate or remove seals, padlocks or any other form of security placed on the means of transport, provided that total or partial missing goods are determined (Guayasamín & Guayasamín, 2015).

⁵³ According to article 2, literal qqq) of the Regulation to Book V of the COPCI, undervaluation is understood as such when in a subsequent control process the alteration is verified for a lower amount of the real value of the imported merchandise, provided that said alteration is for double billing, (...)

requirement to importers and it is advisable to comply and present the documentation in time to achieve greater efficiency in the development of the operation.

The second restriction that the pre-restriction that clothing has is related to the INEN requirements. As mentioned earlier in this chapter, the main function of the institution is related to the Ecuadorian Quality System, since it seeks compliance with citizen rights related to security and the constant improvement of Productivity and competitiveness in the country.

For the process of importing clothing, Technical Rule 1875 and Technical Regulation 013, established by the aforementioned body, must be considered in order to comply with the respective requirements.

Ecuadorian Technical Norm No. 1875

This Technical Standard contains the requirements and everything about the labeling of clothing. According to what is established in point 4 of the *ejusdem* Standard, they are as follows.

1. The information on the labels must be legible.
2. The clothing must have permanent labels.
3. The material of the labels must be resistant.
4. The dimensions of the labels must contain the minimum information required.
5. The information on the labels can be expressed alphabetically, numerically or a combination of both. Abbreviations can be used. These are detailed in Appendix A of the standard under analysis.

On the other hand, the importer must carefully comply with two specific requirements of the labels and they are:

1. Establishment of the percentile of textile fibers, leather and coated fabrics used.
2. Instructions for care and maintenance of the clothes.

These requirements must be meticulously followed according to what is established in the *ibidem* standard, because failure to comply with them has caused many inconveniences for importers in the country. A minimum error detected in merchandise

labeling is due to importation process to be affected; causing delays in the nationalization of the merchandise as well as loss of money.

Ecuadorian Technical Regulation 013.

Similarly, to refer to the second restriction, it is important to analyze the Ecuadorian Technical Regulation 013, which entered into force on December 7, 2013. To date, it has had four modifications and the last one was made on April 7, 2017. This Regulation, like the aforementioned Standard, specifies how the labeling of clothing, household linen and clothing accessories should be. It also expresses the procedure for assessing compliance, carrying out the sampling and inspection of the goods, the monitoring, control, sanctions and responsibilities of conformity assessment bodies. All this procedure has been previously developed in chapter one of the present titration work.

In order to better understand the problems that commonly arise in practice, an interview was conducted with Mr. Rafael Sánchez, Technical Officer of the Ecuadorian Normalization Service in the city of Cuenca, who has discussed the two most frequent problems, the following being the same:

1. Failure to comply with the pictograms⁵⁴, Sanchez mentioned that the importers do not comply exactly with what is mentioned in the Ecuadorian Technical Regulation 013 and the Ecuadorian Technical Standard 1875, where the content that the labels must carry can be clearly found.
2. The second inconvenience has to do with the subject of the composition, according to Sánchez. This situation occurs when the clothing has more than two materials of composition and the importers do not detail each one of them. For example, garment has a lining and the composition of the clothes is specified, but does not establish the composition of the lining. This causes problems to proceed with the execution of the certification.

In this interview, the INEN official stated that the problems mentioned commonly occur in practice. However, he has expressed that currently there are no more problems than in previous years and that it is thanks to the current legal regulations. It has also indicated

⁵⁴ Sing of the writing of figures or symbols (RAE, 2018).

that, when these problems are detected, they request the importer to correct them in order to proceed without any problem to carry out the verification. On the other hand, it points out that there is no exact time and value when one of these drawbacks occurs, since it is something that directly depends on the way the importer proceeds to solve the problem that arises.

Finally, stressed that these type of problems will always represent time and money for importers, so he advises fulfill with responsibility of what is established in the legal norms.

It is necessary to include the certificate of origin. Because the import is made from a member country of the European Union, and by the Agreement that Ecuador has with it, benefits can be obtained. The importer is the one in charge of obtaining this certificate. It is obtained through the Chamber of Commerce of Spain, presenting the documentation requested. This support document has an approximate value of 40 euros and is presented at the time of the nationalization process.

Once the registration of the importer before the SENAE and the MIPRO is ready, I proceed to explain the process for the actual importation.

4.2.1. Importation Process Steps.

1. The first step as mentioned is the registration of the importer before the SENAE. This public institution must enable the importer to proceed to carry out this foreign trade operation. In addition to the registration before SENAE, the importer must register with the MIPRO. This second register is currently made in the VUE, where form 135-008, which is the application for said registration, must be completed.

2. Second is the negotiation with the chosen suppliers. In the negotiation the quantities, models, prices, and the shipping terms of the merchandise are agreed upon.

3. In this project, the supplier would not send the goods because it is negotiated in incoterm EXW (In the factory). Therefore, the importer must have a freight forwarder⁵⁵ that is the international carrier.

In accordance to information provided by Luis Felipe García, former customs official: the importer should find a cargo broker that works with shipments to Ecuador such as Pluscargo Ecuador, Kuehne Noldl, Mediterranean Shipping, Transocean, Saco Shipping, etc. On the other hand, the importer should investigate the quotes offered by these cargo brokers. This quote is calculated according to the weight and volume of the merchandise and this measure is called "volumetric weight" because, there are cases where the merchandise weighs little but occupies a large space in the container or the merchandise can weigh a lot but occupies a small space. That is why its important check the rate they charge according to the volumetric weight of the merchandise, negotiate with the freight forwarder and approve the shipment.

4. Once the cargo arrives in Ecuador two alternatives are presented: the clothing can arrive labeled or not. In this project, the second option is presented. "If the clothing is not labeled, a customs declaration must be made for the Customs Warehouse, which is Regime 70. Art. 152nd, Book V, COPCI, in correlation with Art. 144 of indicates that the Customs Warehouse is a customs regime, by means of which different imported goods can be stored within a determined period of time and controlled by the Customs, in a physical place that is enabled and recognized for this activity, characterized by no pay duties and taxes and also applicable surcharges. This deposit may be public (storing goods from third parties) or private (for the exclusive use of its owner).

On the other hand, it is important to identify the difference between Customs Warehouse and Temporary Deposit. The first, to which the merchandise covered by the present work would be received, is a customs regime, as already mentioned, which allows the storage of the goods for a specific time, specifically for one year; for its improvement or to carry out the nationalization gradually. On the other hand, as established in Article 53 of the Regulation to Book V, Title II of the COPCI, the temporary deposit is a customs service, whose purpose is to store those goods that cannot be loaded or unloaded directly to or

⁵⁵ Cargo broker is the legal entity (...) that can provide cargo handling services, group merchandise and present transport documents or other documents of their activity (Regulation of Book V of COPCI, 2017).

from the middle of transport. In addition, there is included the merchandise that requires other customs operations for dispatch.

In summary, according to García, the Customs Warehouse is a special regime that allows the improvement of the cargo, and part of that improvement is the labeling. The clothing must be labeled by qualified companies registered with the MIPRO (García F., 2017).

5. When the merchandise is already labeled, the inspection of the verifier⁵⁶ authorized by the SAE⁵⁷ is requested as Bureau Veritas or the same INEN.

6. The verifier issues the certificate of conformity if everything is correct, otherwise, make the necessary observations to comply with the regulations. This operation is also performed directly by the INEN and its value is approximately \$ 246.40 per inspection.

7. Then, the importer must enter the Ecuadorian Single Window (VUE), and INEN approval is requested. In addition, the importer have to attach the invoice, the approved certificate and fill out the form that follows. This approval has an approximate value of \$ 247 per chapter; in the present project, I only worked with a chapter that is 61 in the tariff items.

8. Once the INEN is approved, the Customs Import Declaration (ADI) will be prepared. At that moment, the computerized system of SENAE, ECUAPASS, based on the risk profile⁵⁸, directs the channel or type of capacity, which can be automatic, documentary or physical. These are the three channels available in the district of Cuenca.

9. If the capacity turns out to be physical, knowing that it is a public act⁵⁹, the importer together with the customs officer and the customs broker, check the merchandise, to

⁵⁶ Verifiers are private companies authorized by the SAE that perform the service of physical inspection of the goods, verifying the nature, quantity, classification, weight, value, among others (SENAE, 2017).

⁵⁷ SAE is the Ecuadorian Accreditation Service, a regionally recognized body that operates in the field of conformity assessment, to generate trust in local authorities, national and international markets, facilitating foreign trade (Ecuadorian Accreditation Service, 2018).

⁵⁸ Article 146 of Book V of COPCI establishes that risk profiles "Consist of the predetermined combination of risk indicators, based on information that has been collected, analyzed and ranked." The risk profile depends on the history of the importer, if he is a new importer his risk profile is high; however, the level of risk decreases when, over time, the importer satisfactorily fulfills his obligations, thereby raising his level of confidence.

⁵⁹ According to Article 84 of the Regulation to Book V, Title II of the COPCI, the public act refers to the presence of the declarant, his delegate, his customs broker or his assistants, duly authorized; in the physical capacity.

verify the conformity between it and that established in the Customs Declaration. The official will make the observations of the case or give the authorized exit.

It is important to know that today, the customs of several countries have a basis of value, and this compares the declared prices of the goods in customs and share this information with each other. Currently, Ecuador does it with Peru and Argentina to promote the correct valuation⁶⁰.

4.3. Establishment of Tariffs.

Article 108, Book V, COPCI indicates taxes on foreign trade:

- a. The customs duties.
- b. The taxes established in organic and ordinary laws, whose generating events are related to the entry or exit of merchandise.
- c. Rates for customs services.

(...) The article also indicates that the tariff surcharges and other economic taxes that are applied as trade defense measures or of a similar nature, for example: safeguards; they cannot be considered as taxes under the terms established by the COPCI.

Therefore, it is necessary to refer to incoterms, due to their importance for the calculation of taxes to foreign trade and those that apply in the present work are:

- **EXW:** means in the factory; the seller places the goods at the disposal of the buyer in their own facilities and at that point the responsibilities are transferred.
- **FOB:** means franc on board, that is to say that the selling company puts the goods on board the ship, and up to that time fulfills its responsibility. From that moment the buyer assumes all the risks. This is one of the most common incoterms in practice.

⁶⁰ Article 110 of Book V of the COPCI states that the customs value of the goods is the transaction value of the same, plus the costs of transport and insurance, determined as established by the provisions governing customs valuation. Therefore, the customs value would be: Cost + Insurance + Freight; leading to the CIF term. In addition, the Decision of Agreement 571 of April 20, 2004, in its second chapter contains the Determination of Customs Value agreed upon by the member countries of the Andean Community of Nations.

- **CIF:** means cost, insurance and freight; where the selling company makes the delivery of the goods on board the ship, it differs from the incoterm FOB because in this trading term the seller pays a minimum insurance coverage and freight. In addition, the CIF serves as the tax base for the calculation of tariffs.

On the other hand, Article 110 of Book V of the COPCI states that the taxable base of customs duties is the customs value of the goods; that is, the real value of the goods plus the value of the transport and the value of the insurance. This being the CIF value, incoterm previously mentioned.

Table 18 shows the calculation of the taxes of the merchandise to be imported. It has been considered to acquire a merchandise value of \$ 10,000 in FOB terms; that is, said value when the goods have been placed on board the freight forwarder. The weight of the merchandise is approximately 300 kilograms.

Table 18 Calculation of Taxes

FOB		10.000,00
FREIGHTAGE		300,00
INSURANCE		46,35
CIF TOTAL		10.346,35
WEIGHT (KG)		300
ADVALOREM	10%	1.034,64
SPECIFIC A.	5,5	1.650,00
FONDINFA	0,5%	51,73
CUSTOMS CONTROL SERVICE RATE	100 gr.	300,00
IVA	12%	1.605,93
TOTAL TAXES		4.642,29

Source: SENA.
Calculated by: Karla González.

In the previous table, the calculation of merchandise taxes has been developed. To carry out the feasibility analysis, it was decided to acquire a value of \$ 10,000 in FOB of

merchandise. This amount, the total corresponding weight is 300 kilograms. The values of international freight have been investigated and the value that the shipping companies usually charge, which is \$ 300 for this cargo, from Spain to Ecuador. This load would be imported into a container as a shared load, since it does not occupy the whole of it. Subsequently, the services of an insurer must be contracted; the value is 0.45% of the value of the merchandise plus the value of the transport, as calculated in the previous table. When adding the values: FOB, Freight and Insurance; the CIF value is obtained, which is the base value for the calculation of taxes.

The taxes of this merchandise are established in the same table. After that, it was necessary to calculate the new Customs Control Service Rate -TSCA-, which has been in force since November 13, 2017, in accordance with Resolution No. SENAE-SENAE-2017-0001-RE (M) "This value is calculated thanks to a mathematical formula that is: $0.10 \text{ ctvs.} \times \text{Net Weight of the Merchandise} \div \text{Control Unit}$. "(Brussil, Customs Control Service Rate, 2018). The control unit for these goods according to the ECUAPASS system is 100 g. (ECUAPASS, 2018). In this case, with the calculation, the value to pay for the aforementioned rate is \$ 300. Finally, the Value Added Tax is calculated and the total amount of taxes to be paid is obtained.

As I have analyzed, this new rate has increased importation values and according to the current SENAE's General Director, Economist Mauro Andino. This fee is charged to improve controls against smuggling and customs fraud and to promote fair trade. However, problems arise with the speculations that are generated in the market. Therefore, it could be mentioned that the objective of applying this rate is positive in order to obtain better control, if it is applied efficiently, to avoid damages to the productive sector of the country and to foreign trade operators that comply with all their obligations. That is, if the collection of this rate reaches its stated objectives would be a good strategy to counteract contraband and fraud; but, to determine its validity, it is necessary to wait for results by said application. On the contrary, the payment of the rate could be the cause of an increase in smuggling and fraud, the extra value that should be canceled and especially for the aforementioned speculation.

It is also important to bear in mind that, in accordance with the provisions of Article 4 of the SENAE-SENAE-2017-0001-RE (M) Resolution, signed on November 1, 2017, the

taxpayers of the mentioned rate are all those who enter foreign merchandise into the Ecuadorian territory and who take advantage of the import customs, exception and other customs regimes, having zero tariff (0) cents of the United States of America, budgets such as those covered by the customs regime of importation for consumption, with exoneration of taxes to foreign trade, in goods entered as: Personal effects of travelers, Relief Shipments, Donations coming from abroad, among others.

It should also be remembered that Resolution *ibid* is effective as of November 13, 2017, except for the exception customs regimes of "Postal Traffic" and "Accelerated Messaging" and the Customs and Transshipment transit regimes, whose entry into force it was on January 15, 2018, as indicated in the Reform Order of Resolution No. SENAE-SENAE-2017-0004-RE (M), signed on December 20, 2017.

4.4. Logistics and Nationalization Process.

Logistics is a set of activities that allow the effective operation of a company to reduce costs and times to the maximum from the place of origin to the place of destination of the goods. Its functions are supply, maintenance and transport. The logistics support system of companies, whether small, medium or large, must have clearly identified their suppliers, distributors, wholesalers, retailers, and final consumers (Páez, 2013).

For this work Spain has been chosen. The suppliers will be the companies of the brands Bershka, Stradivarius and Pull and Bear. The incoterm of negotiation with suppliers is EXW (in the factory) because the goods are collected from their own establishments. From there, an international carrier will be available to continue with the process.

The logistic and nationalization process is carried out in the following way:

1. Purchase of the goods. This step is immediate because the importer does not have to wait for the production of the goods because one of the most important characteristics of the chosen suppliers is their constant availability of products of the latest trends. There will always be stocks.

1. The international carrier will handle the transfer of the goods internally and the transfer from Spain to Ecuador. This process takes around 30 to 35 calendar days.
2. Once the merchandise arrives, it is stored in an authorized Temporary Deposit, the same one that is guarded and labeled for the realization of the customs declaration.
3. Goods entered into the country must be declared to SENA E to pay taxes.
4. Previous controls are made by electronically reviewing the information that the shipping companies give to SENA E.
5. The SENA E begins the review of import customs declarations, physical or documentary controls, through the ECUAPASS system.
6. It would take around 5 days for the goods to leave. If everything is in order and relevant requirements and certificates have been presented.

According to the experience of Nicolás Cantos, Assistant Agent of Customs, in case not everything is in order for nationalization, the main drawbacks that arise are related to errors in the labeling, as also indicated by Mr. Rafael Sánchez, INEN official. There may be mistakes in the wording, in Graphs or they do not comply with the provisions of current regulations.

Another problem occurs when the importer makes his purchases in different stores and consolidates his invoices for the import, and it turns out that the person in charge of consolidating the invoices commits an error. Therefore, when entering a customs warehouse, problems arise because the official who performs the survey detects the errors. For example, the quantities, values, type of merchandise, country of origin do not match and may even establish the negotiation term (incoterm) incorrectly (Songs, 2018).

One option to solve this problem is to perform merchandise recognition⁶¹. A new inspection⁶² is requested, where one takes clothes by clothes, to generate a new invoice, and each one of the items is counted. All this represents time and money, and depends on the amount of merchandise. If it is a small amount this can take one or two days; but, if it is a complete container this procedure could take four or five weeks. Everything depends on the importer and on the way he executes the corrections for the nationalization of his merchandise. These are the problems that occur most in practice according to Cantos.

In order to finalize the development of this importation process, it is necessary to name differences between the three customs figures mentioned in the interview with Nicolás Cantos. First, the capacity is the act that allows the Customs Administration to set taxes, through electronic, documentary or physical verification of the origin, nature, quantity, value, weight, measurement and tariff classification of the goods in concurrent control, is say once presented the Customs Declaration. Secondly, the Recognition of Merchandise is an act of prior control, that is, it is requested before presenting the Customs Declaration, to confirm that what is established in the documents presented as the commercial invoice agrees with the imported merchandise. And thirdly, the Inspection is an act performed by a technical operator before the Customs Declaration Registration, it is usually done by an authorized representative of an external control entity such as the INEN, with the objective of examining that the nature, condition, quantity, weight and measurement of the merchandise is in accordance with what is stated in the transport document and the commercial invoice; seeking to protect the integrity of the final consumer.

⁶¹ Article 136 of Book V of the COPCI indicates the Rights of the Owner, Consignee or Consignor; mentioning that, before presenting the customs declaration, the owner or his representative, previous authorization of the director or district director; he will be able to carry out the recognition of his merchandise, to verify the accuracy of the merchandise with the documentary information received.

⁶² According to the Manual for Inspections in Import Load No. SENAE-MEE-2-3-013-V1 of July 2013; Inspection is the act performed by the SENAE operator technician in the presence of the consignee of the merchandise or its delegate, or of external control entities, in order to determine by opening, the nature, condition, quantity, weight and measure, in accordance with the transport document and commercial invoice. In addition, photographs must be taken as proof of the inspection act, for the issuance of the report that enters the Ecuapass (SENAE, s.f.).

Conclusion

In this chapter, the import process was developed in a concrete manner. It described how this operation is carried out from the importer's registration before the SENAE and before the MIPRO, fulfilling all the requirements, until the merchandise goes out for commercialization. Through the development of this chapter it has been possible to investigate what is necessary to execute the import of clothing from Spain to Ecuador. There were presented the two restrictions that these type of goods have, and how we need to proceed to meet all the requirements.

Therefore, in this chapter it has been possible to establish the requirements, the process and the taxes of this whole procedure. Also, through this investigation it was determined that it is very important to comply and follow the steps in the correct way to avoid inconveniences; knowing the restrictions that these goods have. That is why, SENAE recommends that an importer must have a Customs Agent because, it is one of the main guides in the nationalization process. Importing clothing is not an easy task, but following the established in the current legal regulations, the results are satisfactory. Finally, with the information of this chapter it is possible to carry out the feasibility analysis that includes the costs that this operation requires, in this way the feasibility of the present investigation work can be defined; the same will be presented in the next chapter.

Additionally, one of the main objectives of this work has been to develop the entire process of importing clothing with compliance with the requirements and regulations in force since these type of goods is the most susceptible to commit acts of smuggling and customs fraud. That is why SENAE seeks strategies to combat such malpractices, and one of them has been the application of the aforementioned Customs Control Service Rate, in order to fight against illicit activities and promote fair trade in the country.

Chapter 5

Feasibility Analysis

Introduction

In this last chapter, the feasibility analysis of the project was presented through the production of different calculations and observations. In the first place, a table was developed that presents an estimate of the costs that would be represented by the import of the clothing previously selected, from Spain to Ecuador. After obtaining the total value of the import, I established a financial study to determine if it is feasible or not to carry out all this foreign trade operation for its implementation.

In the financial study, an initial investment was proposed where the value of the import was included. After that, three different scenarios were established that indicate the possible results of the commercialization of the nationalized merchandise. A favorable scenario was executed with a good level of sales; a normal scenario with a moderate level of sales and an unfavorable scenario with a large drop in them. All sales projections were analyzed quarterly; In addition, the goods are divided according to their tariff heading. I proceed in this way, because the ideal would be to recover the investment in the short term; due to the value of this initial import. This analysis is carried out thanks to the sales projections, cash flows and the calculation of the Net Present Value and the Internal Rate of Return, which are useful tools to determine the feasibility of a project.

5.1. Importation Costs.

The costs of importing clothing for female segment from Spain to Ecuador are shown in Table 9. Also included are foreign trade taxes that have been previously established, to have the total cost of this activity.

Table 19 - Importation Costs

DRESCRIPTION		
FOB		10,000.00
FREIGHTAGE		300.00
INSURANCE		46.35
CIF TOTAL		10,346.35
WEIGHT	Kg.	300
ADVALOREM	10%	1,034.64
SPECIFIC ADVs	5.5	1,650.00
FODINFA	0.5%	51.73
CUSTOMS CONTROL SERVICE RATE	100 gr.	300.00
IVA	12%	1,605.93
TAXES TOTAL		4,642.29
EXPENSES		
TRANSPORTATION GYE-CUENCA		120
CUSTOMS BROKER		260
LABELING		350
INSPECTION CERTIFICATE		246.4
INSPECTION CERTIFICATE'S APPROVAL		247
STORAGE (Contecon ⁶³ - 5 days)		20
CREDIT CHART (TAX TO EXIT OF CURRENCIES)		71
TOTAL TO BE PAYED		16,303.04

Author: Karla González.

As seen in Table 19 the import value is \$ 16,303.04.

⁶³ Contecon Guayaquil is a company that provides port services internationally, with profitability and social responsibility. It is located on Av. De la Marina, Puerto Libertador Simón Bolívar. "It was created with the concession of container terminals and multipurpose of the Port of Guayaquil; providing different services such as: storage or deposit, cargo handling, weighing, etc.; initiating its port activities since 2007 " (Contecon, 2018).

5.2. Financial Study.

In order to execute a financial analysis, it was decided to develop three possible scenarios: one favorable, one medium and one unfavorable, referring to the sales of clothing to determine the viability of this import project. On the other hand, for the favorable and unfavorable scenario they vary between 50 and 60 percent in the fall and rise of sales; this type of variation has been used to analyze how well or badly the importer would go if he is in one of these circumstances. Before the presentation of the data, reference is made to the elements that have been taken for the development of this financial plan.

- **Initial Investment:** It is the amount defined for the financing of the project. "They include the granting and collection of loans, the acquisition of property, plant and equipment and other assets other than those considered as inventories." (Ocampo Flores, 2010)

- **Fixed costs:** Fixed expenses are those costs of the activity that do not depend on the level of goods and services produced or sold by a company (Ruiz, 2017). Those are that remain constant, but may suffer variations over time. For example, payment of basic services, rent, insurance, etc.

- **Variable Expends:** These expenses are those that depend directly on the number of sales made by the company. "If the level of activity decreases, that of these expenses also decreases while, if the level of activity increases, so does this class of variable expenses" (Ruiz, 2017). For example: Merchandise, packaging, commissions, etc.

- **Benefits before interests, taxes, depreciation and amortization⁶⁴ (EBITDA):** It is commonly used to determine the ability to generate profits from a company considering only its economic and productive activity, since it tells us the result obtained by the direct exploitation of the business. "Since it does not include all the expenses of the company, it shows more clearly the money it has left to pay its debts." (Economipedia, 2015)

⁶⁴ Amortization is a term used to describe the procedure to settle a debt. It consists of paying periodically the same amount that contains part of the capital and another part of the interest until the total debt is covered within a certain period (Mendoza Melken, 2010).

5.2.1. Initial Investment

Table 20 – Initial Investment

Initial Investment	USD (\$)
Importation	17,000
Technological Assets	2,500
Design and decoration	2,000
Advertising	700
Office supplies	500
Operation Permits	300
Initial Investment - Total	23,000

Author: Karla González.

5.2.2. Financial Study - Favorable Scenario

Table 21 – Favorable Scenario

Product	Demand	Price	Period (Quarterly)	Sales Projection	Sales Increase
Pants	113	45	Trimester 1	5,062.50	
Blouses	180	25	Trimester 1	4,500.00	
Jackets	113	45	Trimester 1	5,062.50	
Pants	117	50	Trimester 2	5,850.00	4%
Blouses	187	30	Trimester 2	5,616.00	
Jackets	117	55	Trimester 2	6,435.00	
Pants	124	50	Trimester 3	6,201.00	6%
Blouses	198	30	Trimester 3	5,952.96	
Jackets	124	55	Trimester 3	6,821.10	
Pants	134	55	Trimester 4	7,366.79	8%
Blouses	214	30	Trimester 4	6,429.20	
Jackets	134	55	Trimester 4	7,366.79	

Compiled by: Karla González.

Table 22 Cash Flow - Favorable Scenario

	TODAY	Trimester 1	Trimester 2	Trimester 3	Trimester 4
Initial Investment	-23,000				
Incomes					
Sales		14,625.00	17,901.00	18,975.06	21,162.77
Total Income		14,625.00	17,901.00	18,975.06	21,162.77
Costs					
	15% Sales				
Variable Costs		2,193.75	2,685.15	2,846.26	3,174.42
Fixed Costs		2,400	2,400	2,400	2,400
Total Costs		4,593.75	5,085.15	5,246.26	5,574.42
EBITDA		10,031.25	12,815.85	13,728.80	15,588.36
Taxes (Basic Fraction)	15%	237	237	237	237
Net Profit		9,794.25	12,578.85	13,491.80	15,351.36
Sale of Assets					
Cash Flow	-23,000	9,794.25	12,578.85	13,491.80	15,351.36
Accumulated Cash					
Flow	-23,000	-13,205.75	-626.90	12,864.90	28,216.26

Compiled by: Karla González.

In the best situation for the importer, the investment would recover in the second quarter of sales with an increase of 60% of them, according to the normal scenario. In each of the quarters, a positive net profit is obtained in the short term with a gradual increase in sales quarterly.

5.2.3. Financial Study – Average Scenario

Table 23 – Average Scenario

Product	Demand	Price	Period (Quarterly)	Sales Projection	Sales Increase
Pants	75	45	Trimester 1	3,375.00	
Blouses	120	30	Trimester 1	3,600.00	
Jackets	75	45	Trimester 1	3,375.00	
Pants	78	50	Trimester 2	3,900.00	4%
Blouses	125	30	Trimester 2	3,744.00	
Jackets	78	55	Trimester 2	4,290.00	
Pants	83	50	Trimester 3	4,134.00	6%
Blouses	132	30	Trimester 3	3,968.64	
Jackets	83	55	Trimester 3	4,547.40	
Pants	89	55	Trimester 4	4,911.19	8%
Blouses	143	35	Trimester 4	5,000.49	
Jackets	89	55	Trimester 4	4,911.19	

Compiled by: Karla González.

Table 24 Cash Flow – Average Scenario

	TODAY	Trimester 1	Trimester 2	Trimester 3	Trimester 4
Initial Investment	-23,000				
Incomes					
Sales		10,350.00	11,934.00	12,650.04	14,822.87
Total Income	-23,000	10,350.00	11,934.00	12,650.04	14,822.87
Costs					
	15%				
Variable Costs	Sales	1,552.5	1,790.1	1,897.51	2,223.43
Fixed Costs		2,400	2,400	2,400	2,400

Total Costs		3,952.5	4,190.1	4,297.51	4,623.43
EBITDA		6,397.50	7,743.90	8,352.53	10,199.44
Taxes (Basic Fraction)	15%	237	237	237	237
Net Profit		6,160.50	7,506.90	8,115.53	9,962.44
Sale of Assets					
Cash Flow	-23,000	6,160.50	7,506.90	8,115.53	9,962.44
Accumulated					
Cash Flow	-23,000	-16,839.50	-9,332.60	-1,217.07	8,745.37

Compiled by: Karla González.

In a normal scenario, with moderate sales, the investment in the third quarter would be recovered, in the same way in each quarter profits are obtained with a projection of sales that grow each quarter.

5.2.4. Financial Study - Adverse Scenario

Table 25 – Adverse Scenario

Product	Demand	Price	Period (Quarterly)	Sales Projection	Sales Increase
Pants	30	45	Trimester 1	1,350.00	
Blouses	48	25	Trimester 1	1,200.00	
Jackets	30	45	Trimester 1	1,350.00	
Pants	31	50	Trimester 2	1,560.00	4%
Blouses	50	30	Trimester 2	1,497.60	
Jackets	31	55	Trimester 2	1,716.00	
Pants	33	50	Trimester 3	1,653.60	6%
Blouses	53	30	Trimester 3	1,587.46	
Jackets	33	55	Trimester 3	1,818.96	
Pants	36	55	Trimester 4	1,964.48	8%

Blouses	57	30	Trimester 4	1,714.45	
Jackets	36	55	Trimester 4	1,964.48	
				Compiled by: Karla González.	

Table 26 Cash Flow – Adverse Scenario

	TODAY	Trimester 1	Trimester 2	Trimester 3	Trimester 4
Initial Investment	-23,000				
Incomes					
Sales		3,900.00	4,773.60	5,060.02	5,643.41
Total Income		3,900.00	4,773.60	5,060.02	5,643.41
Costs					
	15%				
Variable Costs	Sales	585	716.04	759.00	846.51
Fixed Costs		2,400	2,400	2,400	2,400
Total Costs		2,985	3,116.04	3,159.00	3,246.51
EBITDA		915.00	1,657.56	1,901.01	2,396.90
Taxes (Basic Fraction)	15%	237	237	237	237
Net Profit		678.00	1,420.56	1,664.01	2,159.90
Sales of Assets					
Cash Flow	-23,000	678.00	1,420.56	1,664.01	2,159.90
Accumulated Cash Flow					
	-23,000	-22,322.00	-20,901.44	-19,237.43	-17,077.53

Compiled by: Karla González.

In this last scenario, there is a 50% drop in sales according to the sales of the average scenario. It can be seen that the investment does not recover in the short term and the

quarterly profits are low compared with the other scenarios. This would be one of the worst situations for the company. However, it can be considered a short-term study so; it can vary or improve in a future time, with the importation of new merchandise and the application of marketing strategies⁶⁵.

5.3. Determination of: VAN and TIR.

- **Net Current Value (NPV):** The NPV of an investment project is the current value of monetary inflows minus the current value of the outflows (Miner, 2015).

- **Return Internal Rate (IRR):** The IRR for a project is the interest rate for which there is financial equivalence between the project's cash inflows and outflows (Miner, 2015).

- **Investment Recovery Period (PRI):** It is an indicator that measures how much time the total investment will recover at present value. It can reveal to us accurately, in years, months and days, the date in which the initial investment will be covered (ESAN University, 2017).

- **Cost of capital:** Johnson and Gentry define the cost of capital as "the minimum expected rate of return for a project." In general, capital cost is understood as the cost of financing sources (García A. M., 2010).

5.3.1. Results in a Propitious Scenario

Table 27 - Results in a Propitious Scenario

Investment Payback Period (IPP)	6 months (2 trimesters)
Cost of Capital	12%
Net Current Value (NCV)	\$15.131,91
Return Internal Rate (RIR)	38%

Compiled by: Karla González.

⁶⁵ Marketing strategies are responsible for exposing and analyzing the tools available to marketing to design the actions that make it possible to achieve the expected objectives of a company (Santesmases, 2012). On the other hand, marketing is: "The process by which companies create value for customers and establish close relationships with them, in order to receive value from customers in return" (Klottler, 2007).

In the table 27, I present the results of a favorable scenario for the marketing of clothing. First, the investment would be recovered in six months; given that it has been planned to make the sale of the products in a year. The NPV is \$ 15,131.91 and, being a value greater than zero, is positive for the company. On the other hand, the IRR is 38%, surpassing the minimum rate of return, cost of capital, which is expected from the project.

5.3.2. Results in an Average Scenario

Table 28 - Results in an Average Scenario

Investment Payback Period (IPP)	9 months (3 trimesters)
Cost of Capital	12%
Net Current Value (NCV)	\$592.69
Return Internal Rate (RIR)	13%

Compiled by: Karla González.

In this scenario, the investment would recover in 9 months, in the same way the Net Present Value has a positive value; finally, the IRR exceeds the cost of capital with 1%, and it does not surpass it by much, but meets the minimum rate of return that the present project seeks to achieve.

5.3.3. Results in an Adverse Scenario

Table 29 - Results in an Adverse Scenario

Investment Payback Period (IPP)	It doesn't recover in the 1st year
Cost of Capital	12%
Net Current Value (NCV)	\$-18,705.12
Return Internal Rate (RIR)	-35%

Compiled by: Karla González.

In the worst case, if sales fall by 60%, it would not be possible to recover the investment in the short term; for a low level of sales. The NPV is negative and the IRR is well below the performance that is sought from the project.

5.4. Project Evaluation.

After determining the costs of the import and the development of the financial analysis, it is specified that the project is viable. In itself, this analysis has been developed with an import amount for a short-term study. And reviewing the income and expenses, it can be seen that profits can be obtained. Three scenarios are presented to know the situations that can cause the implementation of this study as a way of knowing the benefits and risks that it implies.

In the same way, the results of the Net Present Value and the Internal Rate of Return indicate the viability of the project. The tactic of valuing the investment by measuring its profitability. Only, the last scenario presents a large drop in sales. It demonstrates that it is necessary to implement strategies, so that they do not affect the stability of the company, because they are the fundamental basis for the progress of it.

Conclusions and Recommendations

One of the main reasons for the development of this project has been controversy caused by importing this type of merchandise. Over the years, entry of apparel to Ecuador has caused inconveniences to all importers. That is why this applicability plan was conducted to determine viability of all my trading proposals by fulfilling with every obligation and requirement. This plan is truly important for importer`s safety and for commercialization of our Ecuadorian products.

In this chapter, I have established importation costs with a of \$10,000 FOB value. The base value has been determined to know the total value of the present foreign commerce operation. The final importation value is approximately \$17,000; therefore, importation increases merchandise value reaching 70% more or less. After I established three possible scenarios: favorable, average normal and unfavorable. Nevertheless, I recommended to apply sales strategies and to promote products for avoiding the wrong scenario in which short term investments cannot be recovered.

When executing these kinds of projects, prospective importers must maintain an impeccable organization and tracing must be maintained. As I mentioned previously, importing this type of goods has caused many inconveniences, so during the operation everyone should be alert in order to fulfill all requirements established in the current legislation. Thus, problems can be avoided and the importer can save time and money. One of the most important responsibilities in an importation process is to always be aware of new changes set up by control entities, like SENA. Everyone must fulfill with all requirements and restrictions conduct effective international merchandise commercialization in Ecuador, thus, improving the economy.

Conclusion

Throughout Ecuadorian economic history, solid production and industrialization of clothing has not been achieved. Additionally, high acceptance of external products has blocked our national production development. Therefore, restrictions, requirements, procedures, etc. were established to be fulfilled by every importer to nationalize their merchandise with the only objective of fructifying our economy.

For this reason, I performed a preliminary study to determine whether or not it is a good option to implement this operation. Because of this, I have investigated the target market Gualaceo and obtained information that allowed us to continue with the study due to acceptance and reception of the sample that has been surveyed. Next, I was able to define suppliers according to results of my market research. Suppliers come from Spain, as already mentioned. Spain was chosen as the exporter origin nation because the most internationally renowned European brands have their factories in the Basque country. Here, such brands are very accessible and show latest trends.

If the Multiparty Trade Agreement between Ecuador and European Union enters in force, there would be many benefits for all importers. However, I determined this agreement does not represent an advantage for this type of goods, because the annual reduction schedule refers to safeguards, which were eliminated in mid-2017, so this agreement does not benefit the importer as it should.

Later, with support of professionals, the importation process was fully detailed in order to understand how the whole operation should be executed by applying parameters established in one of the most essential normative entities: COPCI.

I have culminated satisfactorily the project by performing a financial study to determine this plan's applicability after the entire importation process. I have concluded that this activity it is viable to implement, despite difficulties. The importer just has to follow the proper process to import and implement sales strategies to get a successful operation.

As a final recommendation, exterior commerce operators must be updated with all rules and regulations of respective authorities in order to fulfill them, thus, saving time and money.

As already indicated, importing apparel is a rigorous process. This is why this type of merchandise has been very susceptible to smuggling and customs fraud, which really decreases Ecuador's economy. Therefore, honest and loyal commercial practices must be performed in order to avoid rigorous regulations and huge inconveniences caused by bad practices in the importation processes.

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The annexes that are included in this investigation are the following.

Appendix A
Import tariff (6206.40.00.00).

Imports Tariff of Ecuador PUDELECO Editors S.A.				
Tariff Report				
Tariff NANDINA	Physical Unit	Ad valorem	Control unit	6206.40.00.00-6 Tariff NANDINA
6206.40.00.00	Units	10.00%	100g	
Naladisa Correlation: 6206.40.00				
Tariff Description:				
6206 Shirts, blouses and blouses for women or girls.				
6206.40.00.00 Synthetic or artificial fibers.				
Supplementary Codes				
No specific supplementary code. Use the code 0000				
Authorizations and Restrictions				
Code: 0000 Restriction				
Importer Registration				
Ministry of Industries and Productivity				
Code: 0000 Restriction				
INEN Certificate of Recognition				
Ecuadorian Standardization Service				
Additional Requirements and Conditions				
Mixed tariff (specific and Ad-valorem) for imports of textiles, 10% Ad-valorem and USD 5.5 \$ PER KG. Net.				
See Executive Law No. 372 published in the Second Supplement O.R. 203 of May 31, 2010.				
RTE INEN				
The labeling of clothing must comply with the RTE INEN 013 (2R) ECUADORIAN TECHNICAL REGULATIONS "LABELING OF CLOTHING, CLOTHING FOR HOME AND ACCESSORIES." Resolution 17571 filed in 2S O.R. 141 of December 15, 2017. (Valid since 12/15/2017)				
Value-Added Tax				
Product taxed with 12% VAT rate.				

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Appendix B


Import tariff (6204.33.00.00).

Imports Tariff of Ecuador PUDELECO Editors S.A.				
Tariff Report				
Tariff NANDINA	Physical Unit	Ad valorem	Control unit	6204.33.00.00-3 Tariff NANDINA
6204.33.00.00	Units	10.00%	100g	
Naladisa Correlation: 6204.33.00				
Tariff Description:				
6204 Suits, ensembles, jackets, dresses, skirts, skorts, long pants, shorts for women. Coats				
6204.33.00.00 Synthetic fibers				
Supplementary Codes No specific supplementary code. Use the code 0000				
Authorizations and Restrictions Code: 0000 Restriction Importer Registration Ministry of Industries and Productivity				
Code: 0000 Restriction INEN Certificate of Recognition Ecuadorian Standardization Service				
Additional Requirements and Conditions Mixed tariff (specific and Ad-valorem) for imports of textiles, 10% Ad-valorem and USD 5.5 \$ PER KG. Net. See Executive Law No. 372 published in the Second Supplement O.R. 203 of May 31, 2010.				
RTE INEN The labeling of clothing must comply with the RTE INEN 013 (2R) ECUADORIAN TECHNICAL REGULATIONS "LABELING OF CLOTHING, CLOTHING FOR HOME AND ACCESSORIES." Resolution 17571 filed in 2S O.R. 141 of December 15, 2017. (Valid since 12/15/2017)				
Value-Added Tax Product taxed with 12% VAT rate.				
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Appendix C

Import tariff (6204.62.00.00).

Imports Tariff of Ecuador PUDELECO Editors S.A.					
Tariff Report					
Tariff NANDINA	Physical Unit	Ad valorem	Control unit	6204.62.00.00-2	
6204.62.00.00	Units	10.00%	100g	Tariff NANDINA	
Naladisa Correlation: 6204.62.00					
Tariff Description:					
6204 Suits, ensembles, jackets, dresses, skirts, skorts, long pants, shorts for women.					
6204.62.00.00 Cotton					
Supplementary Codes					
No specific supplementary code. Use the code 0000					
Authorizations and Restrictions					
Code: 0000 Restriction					
Importer Registration					
Ministry of Industries and Productivity					
Code: 0000 Restriction					
INEN Certificate of Recognition					
Ecuadorian Standardization Service					
Additional Requirements and Conditions					
Mixed tariff (specific and Ad-valorem) for imports of textiles, 10% Ad-valorem and USD 5.5 \$ PER KG. Net.					
See Executive Law No. 372 published in the Second Supplement O.R. 203 of May 31, 2010.					
RTE INEN					
The labeling of clothing must comply with the RTE INEN 013 (2R) ECUADORIAN TECHNICAL REGULATIONS "LABELING OF CLOTHING, CLOTHING FOR HOME AND ACCESSORIES." Resolution 17571 filed in 2S O.R. 141 of December 15, 2017. (Valid since 12/15/2017)					
Value-Added Tax					
Product taxed with 12% VAT rate.					

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