



# Trade agreements around the world

The differences and challenges of qualifying from an industry perspective

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## INTRODUCTION

As the number of trade agreements continues to grow, it can be daunting to determine which agreements are most beneficial for you.

Where should you start? Your first action should be to determine whether duties are currently paid on imports from countries where a trade agreement opportunity is available. Then target the high value or high volume imports where preferential duty could provide the most significant duty savings. After that, confirm whether there is a rule of origin in the trade agreement that would apply to the imported goods (i.e., if the imported goods can qualify for preference).

What does it mean to qualify for preference? Qualification determines whether a good is eligible for preferential treatment under a trade agreement. Most often, a good qualifies if:

1. The good is wholly obtained or produced (e.g., plants, minerals, or animal products).
2. The good is not wholly obtained or produced, but the good is otherwise eligible as defined by the rules of origin and is substantially transformed by:
  - a. **A change in the tariff classification**  
The finished good is classified in a heading or subheading different from all the non-originating materials (e.g., if peanut butter is classified under heading 2008 and all of the non-originating material is of another heading, it would qualify for preference because there is a different tariff classification).
  - b. **Regional Value Content (RVC) / Value Added Rules (or % rule)**  
The components make up either no more than the maximum percentage of non-originating material or a minimum percentage of originating material. The rules will be defined in each agreement.
  - c. **Process rule**  
Goods will be considered as originating if they are produced through a specific process that occurred in a member country to the trade agreement.

Once you have decided to use trade agreements, a full end-to-end approach should be considered. Recommended steps to follow include:

1. **Sourcing decisions** should be the first part of a trade agreement plan, but it is easily overlooked at the time of purchasing. Purchasing departments should not only review the cost of the goods, but also any potential import duties associated with bringing goods into their locations – whether for manufacturing or resale. If the duty rates are high but the potential of having zero duties under a trade agreement is available, the goods may still be a viable option to buy. A company does not want to find itself in a situation where duty rates were completely overlooked and the import duties negatively impacted the purchase.
2. **Soliciting suppliers** is required, typically as proof that the supplier provided a certificate or declaration to back up the origin of components within a finished good or finished product purchased for reexport.
3. **Bill of Material analysis** reviews the finished good's costed Bill of Material (BOM) against the rules of origin provided within the given trade agreement. This is done to ensure that the good qualifies for the agreement.
4. **Claiming preferential duties** requires specific steps to be taken. Importers and exporters have different required documents. For the parties to benefit from the lowered import duty rate, certain certificates and documentation must be provided.
5. **Post-entry auditing** is often overlooked. For a company to fully manage its trade agreement process, the final declarations must be validated to ensure the expected trade agreement benefits (e.g., reduced import duties) are received.

Throughout the white paper, we will focus on the first four steps. These are critical in the qualification process for claiming preferential duties in trade agreements.

*“A trade agreement can be a free trade agreement (FTA), preferential trade agreement (PTA), or Generalized System of Preferences (GSP). Throughout the white paper, we will refer to all of the above as trade agreements.”*

## STEP 1: MANAGING AGREEMENTS WHILE SOURCING

To maximize trade agreement opportunities, you should consider all the benefits as early as possible in the sourcing process. Many companies think of the cost reduction of imported products as the primary benefit. However, sourcing decisions must also include whether changing the supplier of a component of a finished good might preclude the good from qualifying under agreements with countries in which the customer is located. If a company cannot certify goods for a customer wanting to invoke a trade agreement, the customer's cost is increased, and an alternative source for the good will appear more attractive.

For example, if a supplier is qualifying a finished product based upon Regional Value Content (discussed during step 3), it is critical that the value of non-originating material not pass the allowed percentage for qualification. The switch of purchasing a single component from a country included in the trade agreement to one outside of it may prevent the manufacturer from being able to confirm preference on the importation. If the price to that customer was based upon this preferential treatment of the good, the result can mean loss of profit or loss of business.

*“It’s important to not only claim the preferential treatment but to also frequently audit such claims to ensure all qualifications are continuously met.”*

That’s why the involvement of the compliance department is critical in all sourcing decisions. Trade agreements are constantly changing, and it is important for companies to review their options frequently. Reviewing and comparing current import activity to current trade agreements for potential savings is essential.

At this time, there are well-established trade agreements under renegotiation, forcing those participating to reevaluate their sourcing, production, inventory, and transportation strategies. Companies involved in global trade must also stay apprised of the minor adjustments frequently made to trade agreements. Even a small change to the Harmonized Schedule (HS) in one or more member countries could lead to changes in the rules of eligibility or duty rates. HS-related agreement modifications do not always occur simultaneously with the HS change, nor are they always consistent among the agreement member countries.

It is equally imperative that routine sourcing reviews include future rates possible from either progressing trade agreements that are proceeding with a negotiated tariff reduction schedule or from potential trade agreements in negotiation. While the future rate is more certain in the first scenario, you should consider the latter option on a regular basis, since both enactment of trade agreements and changes in sourcing contracts have a long lead time.

In order to ensure compliance when claiming preferential rates, it’s also critical that a compliance team member checks to ensure that all required documentation is included in the sourcing contracting. Whether the company plans to claim preferential treatment on the purchase or requires certification for the customer, confirming that all documentation requirements – including formatting requirements – are known as early as possible will ensure the collection of the necessary information and the inclusion of the documentation in the purchasing transaction.

It’s important to not only claim the preferential treatment but also frequently audit such claims to ensure all qualifications are continuously met. All documentation is expected to be accurate and maintained based on the record retention policy for each agreement.

## STEP 2: SOLICITING SUPPLIERS

As an importer, you have to ensure not only that the imported products meet the required standards of the applicable trade agreement, but also that the appropriate documentation to claim preference is obtained. Equally, the exporter may require suppliers’ declarations/certificates to prove the originating status of materials used in the manufacture, or for finished products that the company buys and reexports.

The main process involves requesting a copy of the certificates/declarations for every component/good from the supplier of the goods. This can be a tedious exercise if a company has a significant number of goods.

Suppliers need to confirm that the supplied goods are either qualifying or non-qualifying for preference. When qualifying, origin must be indicated. The process varies around the world.

**In the European Union (EU)**, suppliers provide supplier declarations. Supplier declarations are typically required when finished goods do not change from the tariff heading of the components or when the value of the materials is over the specified limit as indicated in the rules of origin of a trade agreement.

The most common supplier declaration is the Long Term Supplier Declaration (LTSD), which includes the (1) description of goods, (2) model number, (3) supplier company name, (4) community/country/group of countries/territory of origin, (5) country/group of countries/territory where the goods satisfy the rules of origin governing preferential trade, (6) application and location of cumulation (discussed in step 3) as applicable, (7) declaration validity period, (8) company name, and (9) signature and name of signatory and function in company.

As part of the Union Customs Code (UCC), LTSD requirements allow the declaration to cover a retroactive (up to one year prior to issue date), current, or future (up to six months after issue date) time period, with a maximum of up to two years total.<sup>5</sup> This is seen as a positive change by companies.

**In the United States (US)**, the North America Free Trade Agreement (NAFTA) is the most commonly used agreement. This agreement differs from most US agreements in that there is a specific required certificate format that can vary from country to country. Suppliers must complete a NAFTA certificate in order to provide eligibility for their goods, which is required for all qualified goods.<sup>10</sup>

While NAFTA has a specific documentation format, most other US trade agreements do not. This means companies must be aware of the specific trade agreement requirements to ensure all proper data elements are present and all information was entered correctly. Supporting supplier documentation is a crucial part of qualification for all US agreements. Collecting and managing supplier documentation is one of the largest pain points.

**Latin America** also requires solicitation of suppliers in order to obtain certificates of origin. Supplier certificates can be per a blanket period (typically no longer than a year) or may be required per shipment of goods. This requirement is dependent on the agreement and customs authorities involved. Certain customs authorities may also have their own automated processes in place for accepting supplier certificates to support qualification claims.

**In the Asia-Pacific (APAC) region**, the supplier solicitation process is less evident. This is because preferential certificates of origin are typically Government-Issued Certificates supplied by the local authority.

If a company wants to accumulate (discussed in step 3) overseas-originating materials during the qualification of finished goods under a trade agreement, the company generally needs to have the preferential certificates of origin issued by the issuance authorities in the overseas member country. This determines the country of origin of the materials under the applied trade agreement. More details are discussed later in this white paper.

Per our experience, the Supplier Declarations are more often used by companies to confirm the local origin of materials sourced from domestic suppliers/manufacturers in addition to other supporting documents and information required by the certificate of origin issuing authorities.

In the majority of the regions, it is impossible to qualify for trade agreements without the solicited documents. The documentation should be used in the next steps – analyzing your Bill of Material and claiming preference.

## STEP 3: BILL OF MATERIAL ANALYSIS

Trade agreement qualification needs to assess the origin of the product, which includes the analysis of a fully costed BOM.

The qualification process may generally include the assessment of, but is not limited to, the elements below:

- Finished Goods/Purchased Components
  - Cost
  - Origin
  - Source
  - HS Classification
- Other relevant cost-driving elements
  - Labor
  - Overhead
  - Profit
  - Freight/Others

Whether or not each of the above elements is considered as originating/qualified, content will depend on the specific provisions of the trade agreements. This white paper will refer to “BOM analysis” as the assessment of not only the list of materials used in production, but also the applicable cost-driving elements mentioned above.

### Understanding rules of origin

Once a trader has a fully costed BOM, the rules of origin must be interpreted as required by the trade agreement.

The value of the good to be exported is one of the critical elements used in the product origin analysis. There are different methods to calculate the value of the goods, subject to the provisions of the specific trade agreement. A few examples include:

- Free On Board (FOB – used in APAC and the US), whereby the good’s value includes the costs of transport to the FOB port or site of final shipment abroad.
- Ex Works (EXW – used in the EU), whereby the good’s value includes charges only up to the seller’s factory or premises. All charges from thereon (e.g., delivery, distribution, commissions) shall be borne by the buyer.
- Net Cost (used for NAFTA) calculates the regional value content as a share of the net costs incurred by the producer less any expenses for sales promotion, royalties, shipping, and packaging. Net Cost is mainly used by automotive industries.

There are also differing rules of origin used (e.g., RVC rule, Tariff Change rule, etc.) as we mentioned above. Under RVC rule, the build-up and build-down methods are often used in APAC and the US.

- **Build-Up Method**  
 Regional Value Content =  

$$\frac{\text{Value of Material} + \text{Direct Labor Cost} + \text{Direct Overhead Cost} + \text{Profit}}{\text{FOB Price}} \times 100\%$$
- **Build-Down Method**  
 Regional Value Content =  

$$\frac{\text{FOB Price} - \text{Value of Non Originating Material, Parts or Goods}}{\text{FOB Price}} \times 100\%$$

## Discussing regional variations

Below are a few examples of regional variation.

**In the US**, the rules of origin for trade agreements are generally numbered paragraphs and verbose. Subheading level is common. Some rules are fairly self-explanatory, while others are more complicated and open to interpretation. In the example image below, Rule 1 is a simple change in heading, but it gets more complicated as it goes on. Rule 3 is a multipart rule that requires a tariff shift (part A) or a combination of tariff shift and RVC requirement. As noted in the rule, transaction value or net cost can be used, but companies must be consistent in their costing methods.

### Chapter 82

1. A change to heading 8201 from any other chapter.
2. A change to subheadings 8202.10 through 8202.20 from any other chapter.
3. (A) A change to subheading 8202.31 from any other chapter; or  
(B) A change to subheading 8202.31 from subheading 8202.39, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than:
  - (1) 60% where the transaction value method is used, or
  - (2) 50% where the net cost method is used.
4. A change to subheadings 8202.39 through 8202.99 from any other chapter.
5. A change to headings 8203 through 8206 from any other chapter.<sup>10</sup>

**In the EU**, rules are laid out in a grid.<sup>4</sup> Column (1) provides the HS Heading or a chapter number. If ex is in Column 1, then the rules in Column 3 or 4 apply only to the part of that heading described in Column 2, which provides the description of the product. Column 3 and Column 4 are the rules to be applied. The exporter may opt to apply either of the rules or, if no origin rule is given in Column 4, the rule set out in Column 3 is to be applied. If there are indents, each indent contains the applicable rules.

HS Heading	Description of the Product	Working or Processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex Chapter 88	Aircraft, spacecraft, and parts thereof; except for:	Manufacture from materials of any heading, except that of the product	Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product
ex 8804	Rotochutes	Manufacture from materials of any heading, including other materials of heading 8804	Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product
8805	Aircraft launching gear; deck-arrestor or similar gear; ground flying trainers; parts of the foregoing articles	Manufacture from materials of any heading, except that of the product	Manufacture in which the value of all the materials used does not exceed 30% of the ex-works price of the product

In the example above, if the product is of heading 8805, we can choose “Option 1 – Manufacture from materials of any heading, except that of the product” or “Option 2 – Manufacture in which the value of all the materials used does not exceed 30% of the ex-works price of the product.” It should be noted that the use of the word “material” assumes non-originating material.

There is also the concept of cumulation in the EU.<sup>7</sup> Cumulation is a mechanism that permits originating materials from another country (A) to be used or further processed as originating in your country (B) as if they originated in your country (B). The countries have to use the same rules of origin and contain a provision allowing them to cumulate. There are several types of cumulation: Bilateral, Diagonal, Regional, and Full Cumulation. Bilateral operates between two countries and allows for materials originating in either country to be used as materials originating in the other country. Diagonal cumulation is between more than two partner countries and allows material originating in a defined country to be used as materials originating in your country. As with bilateral cumulation, only originating products or materials can benefit from diagonal cumulation, and it will have the origin of the country where the last working or processing operation took place, provided that it was more than a minimal operation. Diagonal cumulation operates between the Community and the countries of the so-called “pan-Euro-Mediterranean cumulation zone.” Regional only exists under the Generalized System of Preferences (GSP) and operates between members of a regional group (e.g., ASEAN). Finally, full cumulation means all operations carried out between partner countries are taken into account. It does not require that the goods originate in one of the other partner countries, but it does require that all the working and processing necessary to confer origin is carried out in the country with the preference.<sup>6</sup>

**In the APAC region**, many trade agreements provide Product Specific Rules of origin (PSR) for the specified products based on their HS codes, as well as the general rule of origin for products not specified. Products subject to PSR are typically presented in a grid. See the example below from the ASEAN Free Trade Agreement (AFTA).<sup>2</sup>

No	HS 2012	Description	Origin Criteria
1	0101.21	Pure-bred breeding animals	Wholly obtained or produced in the exporting Member State
2	0101.29	Other	Wholly obtained or produced in the exporting Member State
3	0101.30	Asses	Wholly obtained or produced in the exporting Member State
4	0101.90	Other	Wholly obtained or produced in the exporting Member State

Products not subject to PSR would be subject to the general rule of origin, which under AFTA are as follows:

1. (a) For the purposes of Article 26(b), goods shall be deemed to be originating in the Member State where working or processing of the goods has taken place:
  - (i) if the goods have a regional value content (hereinafter referred to as “ASEAN Value Content” or the “Regional Value Content (RVC)”) of not less than forty percent (40%) calculated using the formula set out in Article 29; or
  - (ii) if all non-originating materials used in the production of the goods have undergone a change in tariff classification (hereinafter referred to as “CTC”) at four-digit level (i.e., a change in tariff heading) of the Harmonized System.<sup>1</sup>

To further explain this, let’s use a hypothetical example of a manufacturer of biscuits (HS 1905.31) in Singapore. A biscuit, per its HS code, does not fall under the PSR product table and hence is subject to the general rule under AFTA.<sup>2</sup> We will use the BOM data below for demonstration purposes under the RVC rule – a Regional Value of not less than 40% of the FOB value.

Raw Material	Origin	Value
Flour (non-originating)	MY	\$4
Sugar (non-originating)	AU	\$2.50
Sugar (non-originating)	SG	\$1
Eggs (non-originating)	MY	\$3
<b>Direct Labor &amp; Overheads</b>		\$2
<b>Profit</b>		\$2.50
<b>FOB</b>		<b>\$15</b>

Similar to the EU cumulation, most trade agreements in APAC allow the use of a rule called **accumulation** under which goods originating in a member state, which are used in another member state as materials for finished goods eligible for preferential tariff treatment, shall be considered to be originating in the latter member state where working or processing of the finished goods has taken place.<sup>1</sup>

As a general procedural requirement for accumulating originating materials in the qualification analysis for finished goods under the trade agreement, exporters of finished goods in APAC typically need to obtain preferential certificates of origin issued by the supplier member country for the imported raw materials under the same trade agreement. It should be noted that preferential certificates of origin in APAC are issued shipment by shipment under most agreements in the region, rather than as a blanket preferential certificate of origin covering multiple shipments.

In the above example, both Singapore and Malaysia are member countries of AFTA. If the biscuit manufacturer in Singapore can obtain a preferential certificate of origin under AFTA (Form D) from the Malaysian supplier for the flour and eggs (assuming the supplier is supplying both), the manufacturer can accumulate the ingredients and treat them as though they are of Singapore origin under AFTA:  $(4+1+3+2+2.5)/15 = 83\%$ . As a result, the biscuit as a finished good is originating under AFTA, and Form D can be issued.

Because this example company uses only one trade agreement for both the imported raw materials and exported finished good, it is relatively straightforward. This is not always the case. For example, a company may operate multiple overlapping trade agreements. This is often referred to as a “noodle bowl” or “spaghetti bowl.”

Singapore and Malaysia are members of the AFTA and ASEAN China trade agreement (ACFTA). If we expand the example above to have the Singapore biscuit manufacturer export to both ASEAN markets and China, the manufacturer would apply for two different preferential certificates of origin – Form D under AFTA for ASEAN countries, Form E under ACFTA for China – for the finished good (biscuit) destined to different markets.

To increase the chance of qualifying the finished good under the two trade agreements, the Singapore manufacturer would require the supplier in Malaysia to have different certificates of origin issued (Form D and Form E) for different shipments of the same raw material shipped to Singapore. This is because only the materials imported and accompanied by Form D from the Malaysian supplier can be used for accumulation for the finished good to be exported from Singapore under Form D. The same rule would apply with Form E. No cross-accumulation is allowed.

As a result, the example Singapore company will need very good processes and tools to facilitate its demand planning over time for different certificates of origin from the supplier for different shipments. The planning requirements would increase even further if the company uses more trade agreements and sources materials from multiple suppliers in the region for the production of multiple finished goods.

## STEP 4: CLAIMING PREFERENCE

From our previous example, it is evident that the use of certificates is relevant from both an import and export perspective. What is used as a certificate also varies based upon the agreement (generally different by region).

1. No form at all. This is very rare but does exist for some trade agreements (e.g., US-Singapore, US-Morocco). This is based on the “knowledge” of the importer that the goods qualify, and documents may be needed later to prove qualification.
2. Invoice Declaration/Statement. This is used by the exporter of the products (customs authorization number) on which it is declared that, except where otherwise clearly indicated, the products are of preferential origin. Trade agreements such as Japan-EU, Korea-EU, Japan-Mexico, Korea-EFTA, Japan-Peru, and US-Australia use this method. It is becoming more common in the EU.
3. Self-Issued Certificate without a predefined format. This certificate type generally includes the following: (1) tariff number, (2) proof of qualification, and (3) name of the person certifying. Example trade agreements include CAFTA, US-Peru, CN-Switzerland, Korea-US, US-Panama, and CN-Finland.
4. Self-Issued Certificate with predefined format. NAFTA fits into this category. The LTSD is also an example. Blanket Certificates, which cover multiple shipments of identical goods for a set period of time not to exceed 12 months, are also relevant in this scenario. They are often filed on January 1 of each year and expire on December 31 of the same year.
5. Government-Issued Certificate. This certificate type lowers the risk for audit but is considered a more extensive application process. This approach is typical in the APAC and Latin America regions.

### An export perspective

When exporting preferential goods, the exporter is responsible for providing the customer with proof of origin, so the customer or their client(s) can claim preference at the time of importing the goods.

**In the EU**, the following documents are required at export:

- Movement certificate EUR1/EUR-MED form; or
- Invoice Declaration
  - If the goods are below a specified value, the invoice declaration can be included on an invoice; or
  - Approved exporters can include the invoice declaration on an invoice.
- Some countries may require a certificate of origin confirming that the good originated in the EU against the non-preferential rules of origin.

The exporter must also provide proof that the exported goods meet the relevant rules of origin. The supplier declarations can be used to prove the originating status of the material used in the manufacture or for the finished goods bought and reexported.

**In the US**, the exporter is not required to supply the customer with proof of origin to allow for their customer to claim preferential duty. However, it is a common practice in order for companies to remain competitive in the market and retain good standing with their customers. A certificate of origin is required as proof of eligibility for claiming preferential treatment.

**Under most APAC trade agreements** (as discussed in the BOM example), the preferential certificate of origin should be issued in the exporting country in a prescribed form. There are different requirements for specific business models and scenarios. Companies without dedicated trade compliance resources may miss these export form requirements.

Per some APAC trade agreements, for example, the exporter's preferential certificate of origin must include the following, among other items:

1. If the value added (Regional Value Content) rule is applied, include the FOB price of goods.
2. If the issuance date of the preferential certificate of origin is more than three days from the departure date of the goods, indicate that the form is being "Issued Retroactively."
3. In the case of third-country invoicing, indicate "Third Country Invoicing" and the name and country of the company issuing the import invoice into the destination country. Third-country invoicing here refers to the supply chain arrangement where the invoice that accompanies the preferential certificate of origin, and which is used for the clearance of goods in the importing member country, is not issued from the exporting member country but from another country that may not necessarily be a member to the same trade agreement.<sup>3</sup> In some trade agreements, "Third Country Invoicing" is termed as "Third Party Invoicing," and even the import invoice number should be indicated on the form.

While some formatting requirements are relatively easy to fulfill, some are not. For example, in the case of a third-country invoicing arrangement – which is very common for multinational corporations in international trade – some trade agreements also require that the import invoice number (e.g., invoice of the second leg transaction between the intermediate and the importer) be shown in the certificate of origin. This requirement poses an operational challenge for the exporter in the originating country, as it may be difficult to obtain that information. This is especially true if the transacting parties are unrelated.

In the case of related party transactions, the company may still experience operational hiccups if the second leg invoice is not yet issued by the intermediate at the time of certificate of origin application by the exporter. Without the invoice number available, the exporter is not able to apply for the certificate of origin. As a result, the certificate of origin may not be available to the importer at the time of import.

### An import perspective

Upon filing a declaration with preference, the importer will need a number of documents as proof of eligibility.

**In the EU**, the importer requires proof of origin along with the following documents:

- EUR1/EUR-MED
- An invoice declaration
- GSP Form A – now being replaced by Registered Exporter (REX) System
  - On January 1, 2017, the EU introduced the REX System, a self-certification system that will eventually replace the requirement for GSP certificates on a phased basis by 2020.<sup>8</sup>

**US regulations** allow importers and exporters to self-certify product qualifications for trade agreements. Although a certificate of origin is not required per US regulations when importing into the US, it is required to claim preferential treatment for import shipments. Preferential treatment can still be claimed at the time of shipment if the importer does not have the required certificate of origin at the time of import; however, the importer must pay any required duty at that time. Once the importer has the certificate, it can be submitted along with a refund request of any duties paid.

**In APAC**, importing customs are generally very strict with the above export form compliance. It is not uncommon to see an importer's claims for preference rejected by the importing customs because certain format requirements are not fulfilled in the form from the exporter, in spite of the huge effort already spent by the exporter in qualifying the goods. In other words, **the preferential certificate of origin might be invalidated by form non-compliance**. As a result, the importer would pay the customs duty at a higher rate than the preferential tariff.

Furthermore, most companies prefer having the certificate of origin available (to the importer) when the goods arrive at the destination, so that the importer can submit the form and enjoy upfront preferential duty benefit at the time of import. Though available in some APAC countries, the process of applying for post-import duty refund from importing customs under trade agreements may take a long time. Companies may therefore not be willing to go through this process.

As such, to enjoy the preferential tariff at the time of import, companies having a third-party invoicing arrangement must establish a robust process among the multiple parties involved. Companies must ensure that the relevant information is available and flows timely and seamlessly along the supply chain to facilitate the application for certificates of origin. In turn, that will help ensure execution excellence when implementing the process. Importers must work alongside exporters to establish a robust end-to-end compliance process, including form compliance.

### Additional qualifying elements

It should be noted that there are other important elements to be considered in each trade agreement. Here are a few of them:

- *De minimis*
- Minimal operations and processes
- Treatment of packages and packing materials
- Accessories, spare parts, and tools
- Direct consignment/direct transport
- Outward processing/principle of territoriality
- Neutral elements
- Identical and interchangeable materials

The details of these other elements will not be discussed in this white paper, but **it's important for companies to read the full legal text of the trade agreement as these elements may negatively impact the ability to qualify**.

## HOW AUTOMATION SUPPORTS THE ENTIRE TRADE AGREEMENT MANAGEMENT LIFECYCLE

Software can be an invaluable tool in automating the entire trade agreement management lifecycle. The end-to-end process discussed can be fully automated – including supporting sourcing decisions (step 1), obtaining necessary supplier certificates (step 2), performing BOM analysis (step 3), and issuing certificates to customers (as noted in step 4).

**Rules of origin change. Having access to up-to-date rules of origin and regulatory requirements ensures accurate BOM analysis.** Allowing the burden to be on the software provider means companies no longer have to manually locate every rule in each agreement – which is necessary for the analysis and can be overwhelming. Being assured the software is remaining current with the rules is a significant process improvement and time-saver.

A streamlined process with the ability to store, use, and generate documents on demand is another important consideration in not only managing a successful end-to-end program, but also being ready for an audit at any time. Having automation within the process displays a company's commitment to taking reasonable care with their compliance processes.

- **Supporting sourcing decisions** (step 1). Software provides information in order to support the sourcing decisions of a strategic supply chain. By having key information such as product classification, origin and destination countries, and up-to-date rules of origin and duty rates, FTA software can highlight alternative opportunities that were once less visible. Depending on the commodity, switching sourcing from a country where the destination country has no agreement to one that has negotiated preferential rates can greatly reduce and even eliminate the tariff paid on importing the good. A quick check in a system can give the visibility that can impact the profitability of the finished good into which a component is manufactured or of the resale of a distributed product.

Even using past declaration data, software can highlight where possible missed trade agreement opportunities exist. Software can provide “what if” scenarios that could identify potential trade agreement opportunities to reduce or eliminate duties.

- **Soliciting suppliers** (step 2). Obtaining certificates of origin is one of the largest pain points in taking advantage of a trade agreement. While this is not a significant factor in every region, it is for the majority.

Some companies use spreadsheets to manage their solicitation responses, supplier information, and certificates. Managing spreadsheets is a very manual process when qualifying BOMs by having to cross-check which supplier certificates have been obtained and are subject to error. Providing a single repository for all supplier information, including the company address and contact details of the certificates obtained, will reduce the risk of error. Also, giving suppliers direct access to the software allows them to complete the information and ensure that the certificate was completed in a valid manner using only approved formats and accepted data specific to the agreement requirements. This process provides the ability to review certificates for accuracy and capture any required exchange regarding potential changes to the certificate.

- **Analyzing BOMs** (step 3). This is a significant use of time and resources. Many companies find benefit in utilizing multiple trade agreements within their supply chain, but as mentioned earlier, the intersecting of multiple agreements in a region can make this difficult. Automation allows companies to analyze multiple BOMs at once against multiple agreements and is able to perform all of the overlapping analysis at one time, highlighting the best opportunities and ensuring compliance, with the added assurance that all BOMs are being analyzed in a consistent manner against the rules for the trade agreement.

Because there is significant time reduction in the actual BOM analysis, more time can be spent following up on supplier solicitations (step 2) and, if necessary, reviewing potential sourcing changes (step 1) to improve BOM qualification.

- **Claiming preference** (step 4). Most companies receive numerous requests to supply qualifying certificates for their own goods. In order to remain competitive and pass on savings, it's in everyone's best interest to ensure that certificates of origin are sent, even if there is no legal obligation for this. Managing this process through a software solution allows further integration with the BOM analysis results and supplier certificates by automatically identifying which parts are eligible within the system.

Creating certificates using automation ensures formats are correct and up to date, and provides another check to ensure that accurate data is used. Certificates can then be generated and sent to the customer, allowing further tracking of communication in the process. For companies that historically managed this process via spreadsheets, they would now have quick access to track which customer requests are new, outstanding, or completed. That's a significant improvement in process.

Overall, using software to support the end-to-end process shows a high level of reasonable care and acts as a central repository for all relevant data captured throughout the process. Internal compliance audits are more robust when automation is used to verify all preference claims on every declaration. Additionally, having all the data in the same system allows companies to internally analyze key performance indicators to identify process improvements, as well as perform additional analysis on potential supply chain improvements for increased eligibility.

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