

How to Know if

FREE TRADE AGREEMENTS

are Right for Your Organization

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Introduction

Those in the trade often discuss the benefits of free trade agreements (FTA)—from the duty savings to preferential market access. However, actually securing the promised benefits of FTAs is not always straightforward. Many companies do not know where to start, and as the number of agreements keeps increasing, many do not know which FTAs are the right ones for their business. Getting started might seem like a daunting prospect; but if you take a step back and simplify your approach, you can put the right building blocks in place for a manageable FTA program.



Chapter 1

Is There an
OPPORTUNITY?





The first step is to understand at a high level if an FTA opportunity exists.

Start by completing a detailed opportunity analysis based on the trading directions – Import and Export.

Ask the questions of:

1

Where do you manufacture?

2

Where are you importing from today?

3

Where do you export to?

4

Are any of these countries members of the same FTAs?



Chapter 2

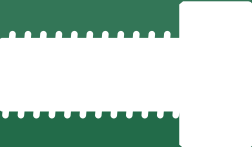
Importing & FTAs SAVINGS DO EXIST





An Australian automotive company imports bolts from Thailand. The tariff number for the bolts is 7326.90.10.40, and the duty rate is 5.0%.


However, Australia and Thailand have entered into an FTA, and if the bolts satisfy the rule of origin, they can be imported at a 0% duty rate. If the import value of 1,000 bolts is \$5.00, and the organization is importing 50,000,000 bolts each quarter, they are currently paying \$12,500 in duties for each shipment. If the organization qualified under the Thailand-Australia (TAFTA) agreement, the duties would be reduced to \$0, and the organization would save \$50,000 in just one year.



Chapter 3

Realizing Bottom LINE SAVINGS





Work with your suppliers and confirm if they can qualify the goods under the trade agreements and provide the necessary documentation to support preferential origin claims.

Chapter 4

Creating Customer Value by

ADDING FTAS TO EXPORT





Unlike imports, there are no duty savings for the exporter shipping goods out under an FTA. The beneficiaries of the preferential duty rates are the customers in the destination countries, and this can give the impression that qualifying goods under an FTA has no benefit for exporters. This is not the case. Customers can be related companies looking for new savings or third party customers that your sales team is competing to secure or retain. The ability to deliver duty savings to all your customers can be a critical part to ongoing success. The demand of your customers, along with the desire to enter new markets, will drive utilization of FTAs as an exporter.

Chapter 5
Passing the
SAVINGS ALONG



To provide preferential duty saving opportunities to customers, you will need to analyze your bills of material (BOM) to see which products qualify for the available trade agreements.




As an example, a Malaysian manufacturer of bicycles of tariff classification 8712.00.110 currently exports 2,000 units at \$450 per unit to a third party customer in Australia annually. It is determined that the bicycles satisfy the rules of origin under the ASEAN-Australia-New Zealand FTA, and by providing the appropriate certification documents, the manufacturer can deliver a \$45,000 saving to their customer without lowering their selling price.



The same manufacturer also exports 1,000 bicycles to a related party in the Philippines with a transfer price of \$325 per unit. The manufacturer chooses the ASEAN FTA and determines that they qualify. Despite selling fewer bicycles and having a lower price than the bicycles sold to the Australia customer, the related party in the Philippines will save \$48,750 as the MFN rate in the Philippines is 15%.

Chapter 5
Moving Forward
WITH FTAS





Like so many other cost driving factors, you need an ongoing strategy to ensure you continue to maximize the savings and other benefits into the future. Once you understand how current trading flows interact with FTAs and the steps needed to take advantage of the FTA benefits, consider how changes to your trading flows could influence FTA outcomes and what safeguards can be added to processes to protect existing benefits.



If it sounds like FTAs could present a real opportunity for your organization, then take the time to review your trading flows and talk to all the parties who may need to be involved. That way, when you start requesting preferential certificates of origin from your suppliers or begin to qualify your own manufactured materials, the support you need is in place.



For More Information on Integration Point's
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