

China's Free Trade Agreements

Lowering landed costs and gaining competitive advantage



Introduction

China is establishing a network of bilateral and regional Free Trade Agreements (FTAs). Companies can take advantage of these FTAs to reduce the customs duties that are assessed on goods when they are imported into a country. This has the benefit of lowering the landed cost, which improves market access, competitiveness and profitability.

However, it is estimated by some that the utilization ratio of China's FTAs in certain areas is as low as 20-30%. This may be due to a lack of awareness about existing FTAs and the benefits, a lack of information on the requirements of the Rules of Origin and the application procedures, and confusion between labelling and origin requirements.

Key Issues

- Navigating China's FTA map:
 - China has established or is negotiating over a dozen bilateral and regional FTAs
 - Each respective FTA contains different Rules of Origin that should be studied individually in order to identify cost saving opportunities and confirm the qualification criteria.
 - China's FTA map as of 2009 is summarised as follows:

Implemented	Under Negotiation	Under Feasibility Study
China - ASEAN ¹	China - Australia	China - India
CEPA ² - Hong Kong	China - Costa Rica	China - Korea
CEPA - Macao	China - Iceland	China - Switzerland
China - APTA ³	China - GCC ⁴	
China - Chile	China - Norway	
China - New Zealand	China - SACU ⁵	
China - Pakistan		
China - Singapore		
China - Peru		

- Overcoming advanced qualifying criteria:
 - Ensuring sufficient processing
 - Approving triangular invoicing
 - Obtaining back-to-back Certificates of Origin
 - Managing the impact of using a shared service centre
 - Analysing finance information for a value-add rule
 - Using an appropriate cost accounting methodology for a value-add rule
 - Using the cumulation rule
 - Complying with the direct shipment rule
- Complying as well as qualifying:
 - Obtaining Certificates of Origin
 - Obtaining supporting documentation

1. Association of Southeast Asian Nations
 2. Closer Economic Partnership Arrangement
 3. Asia-Pacific Trade Agreement
 4. Gulf Cooperation Council
 5. Southern African Customs Union

- Retaining documentation for verification
 - Managing a post exportation origin verification
 - Obtaining advance rulings
 - Managing dispute resolution
- Trouble-shooting ad hoc issues, such as:
 - The exporter uses a different classification code to the importer
 - The actual signature on a Certificate of Origin as received from overseas does not match the authorized signature
- Considering FTAs 'upfront' in conjunction with broader initiatives
 - Establishing a new sourcing strategy
 - Establishing a new manufacturing entity

Action Items

A two-step approach can be taken for realising FTA benefits:

Step 1: Identify savings and validate qualification

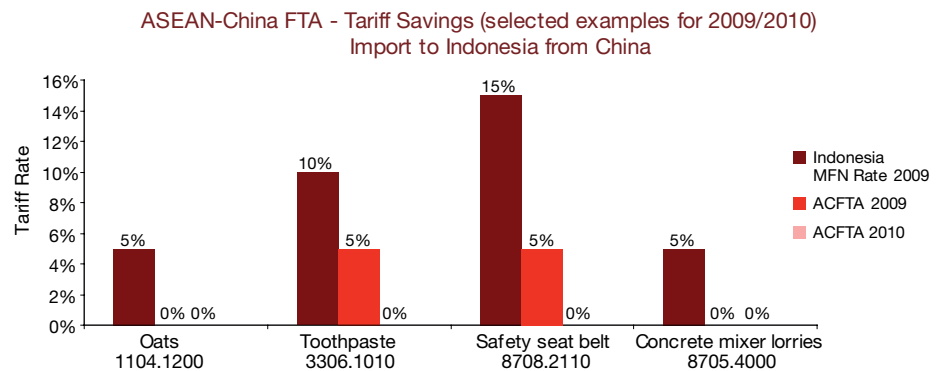
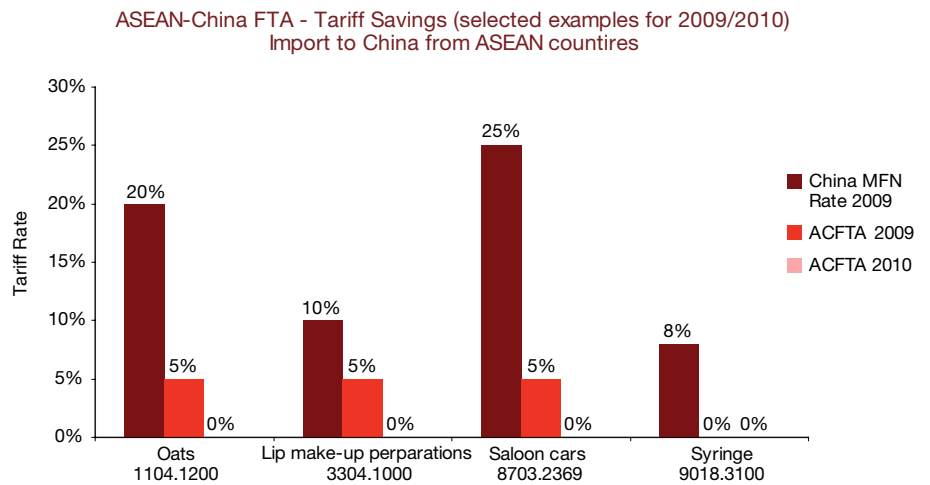
- a. Identify what FTAs cover the supply-chain in question
- b. Calculate the Margin of Preference on a product specific basis
- c. Quantify and forecast the annual customs duty savings
- d. Evaluate whether the products qualify, per the Rules of Origin

Step 2: Implementation

- a. Obtain a Certificate of Origin (per shipment)
- b. Consult with the authorities where advance qualifying criteria need to be overcome
- c. Retain documentation for verification
- d. Obtain advance rulings, where applicable

Benefits

FTAs have the benefit of lowering the landed cost, which improves market access, competitiveness and profitability. Per the example below, the graphs demonstrate some of the tariff concessions between China and ASEAN:



Summary

China's FTAs are under utilized as of now. This means that cost savings opportunities are being missed. Governments do not automatically grant companies FTA status. Rather, companies, by proactively planning and putting in place new processes, can take advantage of these FTAs.

Companies have to make a claim for preferential treatment, using a Certificate Origin, which has been issued in the country of manufacture. Whilst this does represent an additional administrative burden, this cost is typically negligible compared with the annual cost saving benefits that are gained.

Contacts

For further assistance about PwC's customs and international trade services please contact:

Colbert Lam

Partner

+852 2289 3323

colbert.ky.lam@hk.pwc.com

Susan Ju

Director

+86 (10) 6533 3319

susan.ju@cn.pwc.com

Damon Paling

Partner

+86 (21) 2323 2877

damon.ross.paling@cn.pwc.com

Michael Jiang

Director

+86 (21) 2323 2766

michael.h.jiang@cn.pwc.com

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PricewaterhouseCoopers' Customs & International Trade Practice

Customs and international trade in China is complex. However, a planned and structured approach with the right resources assigned results in cost savings, higher levels of compliance and fewer unwanted surprises during an audit. PricewaterhouseCoopers' specialists within our Greater China customs and international trade practice provide a wide range of advice and services related to creating value, ensuring compliance, and managing risk in relation to the movement of goods into and out of China.

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