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PREFERENTIAL MARKET ACCESS FOR THE FOOD AND BEVERAGE (F&B) SECTOR IN ASIA

A BUSINESS GUIDEBOOK ON AVAILING 'TARIFF SAVINGS' UNDER FREE TRADE AGREEMENTS (FTAs) IN THE ASIA PACIFIC REGION

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LIST OF ABBREVIATIONS

ATIGA	ASEAN Trade in Goods Agreement
AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement
ACFTA	ASEAN-China Free Trade Agreement
AHKFTA	ASEAN-Hong Kong Free Trade Agreement
AIFTA	ASEAN-India Free Trade Agreement
AJCEPA	ASEAN-Japan Comprehensive Economic Partnership Agreement
AKFTA	ASEAN-Korea Free Trade Agreement
CC	Change in Chapter A change in tariff classification (CTC) method which entails a change in the first 2 digits of the HS Code of the product.
CO	Certificate of Origin An important international trade document that certifies that goods in a particular export shipment are wholly obtained, produced, manufactured or processed in a particular country. It is a documentary "proof of origin" expressly certifying that the goods which the certificate relates are considered originating, in accordance with the applicable ROO, in order to claim tariff preferences under an FTA such as the RCEP.
CTC	Change in Tariff Classification An ROO criterion where a good is "originating" if it has undergone a substantial process that resulted to a change in tariff classification (i.e. HS code of final product is different from that of its foreign raw materials).
CTH	Change in Tariff Heading A CTC method which entails a change in the first 4 digits of the HS Code of the product.
CTSH	Change in Tariff Subheading A CTC method which entails a change in the first 6 digits of the HS Code of the product.
FTA	Free Trade Agreement A legally binding agreement between 2 or more countries to reduce/eliminate trade barriers in order to facilitate the cross-border movement of goods and services between FTA parties.
HS Code	Harmonized Commodity Description and Coding System or Harmonized System An international nomenclature (at the 6-digit level), developed by the World Customs Organization (WCO), which is used to classify traded goods.
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
OCP	Operational Certification Procedures Sets out the procedures and requirements on the issuance and verification of the Certificate of Origin (CO) by competent authorities.
RCEP	Regional Comprehensive Economic Partnership
ROO	Rules of Origin A set of criteria used to determine the "nationality" of a good to ensure that only goods originating from FTA Parties can benefit from tariff concessions.
RVC	Regional Value Content An ROO criterion where a product is "originating" if the value content of all its originating materials (those sourced from FTA parties) meets the prescribed minimum percentage.
SPS	Sanitary and Phytosanitary Measures
STRACAP	Standards, Technical Regulations, and Conformity Assessment Procedures
TBT	Technical Barriers to Trade
WO	Wholly Obtained An ROO criterion where a good is "originating" if it is wholly grown (e.g. live animals and plants, minerals) or wholly produced (e.g. produced entirely from originating materials) in FTA parties.

I. INTRODUCTION

WHAT IS A FREE TRADE AGREEMENT (FTA)?

A free trade agreement (FTA) is a legally binding agreement between two or more countries to reduce or eliminate trade barriers and enhance the rule of law in order to facilitate the cross-border movement of goods and services between FTA parties.

KEY BENEFITS OF FTAs FOR BUSINESSES

While specifics of each FTA vary, FTAs generally provide for the reduction of trade barriers and the creation of a more predictable and transparent trading and investment environment. This makes it easier and cheaper for companies to export their products and services to trading partner markets.

- **Provide a more transparent and predictable trading environment:** FTAs are legally binding in nature, preventing FTA partners from backtracking on their market access commitments and bringing legal certainty and predictability in trade. FTAs also commit countries to make trade rules as clear and public as possible. This enables businesses to mitigate against potential regulatory risks.
- **Compete abroad:** FTAs eliminate and/or reduce trade barriers, allowing firms to compete on more level playing fields with local companies, as well as gain preferential market access over firms from other countries without an FTA.
- **Access global value chains:** FTAs can increase the productivity of companies, enabling them to competitively source inputs from global/regional value chains.
- **Streamline trade procedures:** FTAs cut red tape to export products through trade facilitation measures/ provisions, particularly on customs clearance requirements and procedures.
- **Gain a competitive edge or an economic advantage:** FTAs reduce import tariffs on cross-border trade in goods, which equates to 'tariff savings' or reduction of trade costs.

HOW DO FTAs MAKE PRODUCTS MORE COST COMPETITIVE?

FTAs remove or eliminate import duties and thus, increase price competitiveness of a product in the destination market

EXAMPLE 1: A SINGAPOREAN COMPANY EXPORTING CHOCOLATE BARS (WITH US$1,000,000 TRADE VALUE) TO ASEAN.

HS / AHTN CODE	PRODUCT DESCRIPTION	IMPORT DUTIES				MARGIN OF PREFERENCE	POTENTIAL TARIFF SAVINGS
		ASEAN Country	Without FTA: MFN Rate	With FTA: ATIGA	With FTA: ACFTA		
1806.20.10	Chocolate confectionery in blocks, slabs or bars	Brunei Darussalam	0%	0%	0%	0%	-
		Cambodia	35%	0%	0%	35%	US$ 350,000
		Indonesia	10%	0%	0%	10%	US$ 100,000
		Laos	10%	0%	0%	10%	US$ 100,000
		Malaysia	15%	0%	0%	15%	US$ 150,000
		Myanmar	15%	0%	5%	ATIGA: 15% ACFTA: 10%	US$ 150,000 US$ 100,000
		Philippines	7%	0%	0%	7%	US$ 70,000
		Thailand	10%	0%	0%	10%	US$ 100,000
		Vietnam	20%	0%	0%	20%	US$ 200,000

- **Margin of Preference =** MFN rate – FTA rate
- **Potential Tariff Savings =** Trade Value x Margin of Preference

Note: Singapore, as a member of ASEAN, is a party to all ASEAN FTAs[1]. This means that exports of 'qualified' or 'originating' (i.e. compliant with the ROO requirement) products from Singapore to any ASEAN country can avail any ASEAN FTA. The F&B firm should determine which FTA would provide the highest 'tariff savings' across all these FTAs vis-à-vis the MFN rate for a specific product.

The Singapore exporter of chocolate bars to other ASEAN countries can enjoy substantial 'tariff savings' if it applies for either the ATIGA or the ACFTA. Cambodia has eliminated its 35% customs duties on chocolate bars, which is the highest among the ten ASEAN countries, under the ATIGA and ACFTA. This means that an ASEAN or a Chinese chocolate exporter to Cambodia can enjoy the highest 'tariff savings' under the ATIGA or ACFTA. Note that in the case of Myanmar, it has eliminated its 15% import tariffs on chocolate bars from other ASEAN countries under the ATIGA, but has maintained a 5% customs duty on same tariff line/product under the ACFTA. The Singapore exporter, thus, would benefit more in exporting its chocolate bars to Myanmar using the ATIGA over the ACFTA. Brunei's MFN rate is already at 0%; thus, no need to avail the 0% preferential tariff under the ATIGA and the ACFTA.

1. ASEAN FTAs include the ASEAN Trade in Goods Agreement (ATIGA), the ASEAN-China FTA (ACFTA), the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), the ASEAN-Korea FTA (AKFTA), the ASEAN-India FTA (AIFTA), the ASEAN-Australia-New Zealand FTA (AANZFTA), the ASEAN-Hong Kong FTA (AHKFTA), and the Regional Comprehensive Economic Partnership (RCEP).

II. HOW TO USE FTAs TO YOUR FIRM'S ADVANTAGE

GENERAL GUIDE ON THE 5 STEPS TO APPLY FOR TARIFF CONCESSIONS UNDER FTAs

01 Check the country of manufacture and export destination of your product. Is there an existing FTA between these countries?

02 Determine the correct tariff classification (HS/AHTN code) of your product in the destination market (i.e. importing country).

03 Ensure that the product is offered tariff concessions (and not excluded from preferential treatment) under the FTA scheme.

04 Check the origin criteria for the good and determine if it qualifies as an "originating" (i.e. compliant with ROO) good under the FTA.

05 Check the documentation required (e.g. Certificate of Origin form, self-declaration).

To illustrate how this works, these steps will be applied to the following four scenarios:

1. A Vietnamese company that exports coffee beans (not roasted and not decaffeinated) to Thailand.
2. A company manufactures in Thailand soya-bean oil and its fractions, whether or not refined, but not chemically modified. It imports raw materials from Australia, and exports the finished products to China.
3. A Singapore company that exports sweet biscuits to the European Union (EU) or the United Kingdom (UK).
4. A company in China manufactures water products (including mineral and aerated waters, with added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages). It imports raw materials from Malaysia, and exports the finished products to Indonesia and Japan.

STEP 01

Check the country of manufacture and export destination of your product. Is there an existing FTA between these countries?

i) Both (a) the country where the good is manufactured (i.e. country of origin); and (b) the importing country (i.e. export destination) must be parties of a common FTA.

ii) If a manufactured product is exported to an intermediate country before being re-exported to the final importing country, all three parties – *(i) country where the good is manufactured, (ii) the intermediate country, and (iii) the importing country* – must be parties of a common FTA.

Note: A foreign company that is registered in one of the FTA partner countries can also enjoy FTA preferential tariff benefits, similarly as local firms, as long as the product is considered "originating" in one of the FTA partner countries.

Scenario 1: A Vietnamese company that exports coffee beans (not roasted and not decaffeinated) to Thailand.

Movement of Good	Available FTAs	Remarks
a) Vietnam → Thailand	• ATIGA • ASEAN Plus One FTAs: (i) ACFTA, (ii) AKFTA, (iii) AJCEPA, (iv) AANZFTA, (v) AIFTA, (vi) AHKFTA • RCEP	• Vietnam and Thailand are both members of ASEAN. Thus, all ASEAN FTAs, i.e. the ATIGA, ASEAN Plus One FTAs and the RCEP, are applicable for this scenario. • All ASEAN FTAs are fully implemented by ASEAN and its FTA partners. The RCEP entered into force on 1 January 2022 and Vietnam and Thailand are parties that have ratified the Agreement[2].
For this scenario, the trader should use the FTA with the most 'tariff savings'.		

[2] As of December 2021, 6 ASEAN members (Brunei Darussalam, Cambodia, the Lao People's Democratic Republic, Singapore, Thailand, and Vietnam) and 4 non-ASEAN members (Australia, the People's Republic of China, Japan, and New Zealand) have ratified the Agreement.

Scenario 2: A company manufactures in Thailand soya-bean oil and its fractions, whether or not refined, but not chemically modified. It imports raw materials from Australia, and exports the finished products to China.

Movement of Good	Available FTAs	Remarks
a) Raw Materials: Australia → Thailand	• Thailand-Australia FTA (TAFTA) • AANZFTA • RCEP	• Australia and Thailand have a bilateral FTA[3], and both are parties to the regional AANZFTA and RCEP.
b) Finished Products: Thailand → China	• People's Republic of China-Thailand Free Trade Agreement (PRC-Thailand FTA) • ACFTA • RCEP	• China and Thailand have a bilateral FTA[4], and both are parties to the regional ACFTA and RCEP. • Australia, China and Thailand have ratified RCEP. Hence, RCEP will apply to this trade scenario beginning from 1 January 2022.

For this scenario, the company can use the following strategies:

1. Import raw materials from Australia into Thailand using either the (i) Thailand-Australia FTA or (ii) the AANZFTA (whichever has the lower FTA tariff rate that is imposed by Thailand), and export the finished products using RCEP.
2. Use RCEP for the importation of raw materials from Australia, as well as for the exportation of finished products to China.

Note: The company in Thailand cannot export the finished products to China using the China-Thailand FTA and ACFTA, as Australia, where the raw materials are sourced from, is not a party to said FTAs.

Scenario 3: A Singapore company that exports sweet biscuits to EU or UK.

Movement of Good	Available FTAs	Remarks
a) Singapore → EU	• EU-Singapore FTA[5]	• EU and Singapore have a bilateral FTA. Both are also parties to the ASEAN-EU FTA which is currently under negotiation.
b) Singapore → UK	• UK-Singapore FTA[6]	• UK and Singapore have a bilateral FTA. UK is also currently acceding to the CPTPP, which Singapore is a party to. • Moreover, there is a proposal to negotiate an FTA between ASEAN and UK.

For this scenario, the Singapore exporter should use the EU-Singapore FTA if the export destination is an EU country, and the UK-Singapore FTA if the export destination is in UK.

Note: A company cannot use the UK-Singapore FTA if the importing country is an EU country. Similarly, a firm cannot use the EU-Singapore FTA if the importing country is in UK.

3. TAFTA entered into force on 1 January 2005 and was Australia's third FTA. It was Thailand's first comprehensive FTA and its first bilateral FTA with a developed country. Total two-way trade between Australia and Thailand has more than doubled since TAFTA entered into force and the majority of Thai tariffs on goods that are imported from Australia has been eliminated. The reduction of Thailand's previously high tariff barriers (e.g. up to 200 per cent for some goods) is a significant win for Australian businesses and this has opened up a range of export opportunities in Southeast Asia's second-largest economy. TAFTA has also improved the environment for bilateral services trade and investment. Australian Government Department of Foreign Affairs. Thailand-Australia FTA [Online]

4. Since October 2003, Thailand has a 'signed & effective' FTA with China, which is called PRC-Thailand FTA and the FTA mainly covers zero tariff on the trade for fruits and vegetables. However, further negotiations for this FTA were put on hold due to the launch of the ASEAN-China Free Trade Agreement (ACFTA) in July 2005. The products from the previous FTA are now covered under the new FTA with zero tariff on further products. Some of the products include meat, fish, dairy products, other animal products, as well as trees and nuts. Best Global Logistics (2020). Thailand's Free Trade Agreements [Online]

5. Enterprise Singapore. European Union-Singapore Free Trade Agreement (EUSFTA) [Online]

6. Enterprise Singapore. United Kingdom-Singapore Free Trade Agreement (UKSFTA) [Online]

Scenario 4: A company in China manufactures water products (including mineral and aerated waters, with added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages). It imports raw materials from Malaysia, and exports the finished products to Indonesia and Japan.

Movement of Good	Available FTAs	Remarks
a) **Raw Materials:** Malaysia → China	• ACFTA • RCEP	• China and Malaysia are parties to ACFTA and RCEP. This means that the Chinese company can use ACFTA and RCEP in the importation of raw materials from Malaysia.
b) **Finished Products:**		
i. China → Indonesia	• ACFTA • RCEP	• China, Indonesia and Malaysia, where the raw materials are sourced from, are parties to ACFTA. This means that the company can use ACFTA for the export of the finished products to Indonesia, with raw materials/ inputs sourced from Malaysia. • All are also members of RCEP, which means that RCEP can also be applied to this specific scenario. As Indonesia has yet to ratify the Agreement, RCEP will not apply until Indonesia has ratified the Agreement.
ii China → Japan	• RCEP	• RCEP is currently the first and only existing FTA between China and Japan, and both have ratified the Agreement. This means that firms can export/ import products between said countries using RCEP from 1 January 2022. • China, Japan and Korea launched negotiations for an FTA (i.e. CJKFTA) in 2013. However, the three countries agreed to stall the negotiations after 14 rounds due to unsuccessful attempts to make any substantial breakthrough in the negotiations.

For this scenario, the company can use the following strategies:

1. Import raw materials from Malaysia to China using ACFTA, and export finished products to Indonesia using either ACFTA or RCEP (whichever has the lower FTA tariff rate by Indonesia).
2. Use RCEP for the importation of raw materials from Malaysia, as well as for the exportation of finished products to Japan.

STEP 02

Determine the correct tariff classification (HS/AHTN code) of your product

Tariff classification is the process of finding the most specific description in the harmonised system for the goods to be classified. It is important to determine the correct tariff classification of your product to: (i) facilitate the importation and exportation of a good; *(ii) prevent misclassification and misdeclaration of products; (iii) minimise supply chain disruptions and shipment delays; (iv) promote the payment of correct tariffs and taxes without fines and penalties.*

The **Harmonized System (HS) Code** is an international nomenclature (at the 6-digit level) for the classification of goods developed by the World Customs Organization (WCO). It is required in the permit declaration of goods in order to determine the tariffs, controls and ROO applicable to the goods.

ASEAN uses the **ASEAN Harmonized Tariff Nomenclature (AHTN)**, which is an 8-digit HS-based commodity nomenclature that aims to facilitate trade among the 10 ASEAN countries. It is aligned with the WCO's HS Code at the 6-digit level.

The **Combined Nomenclature (CN)**[7] is EU's 8-digit coding system for the classification of goods and it comprises the HS codes with further EU subdivisions. Moreover, the Integrated Tariff (TARIC) comprises the 8-digit code of the combined nomenclature plus 2 additional digits (TARIC subheadings – 10-digit level). (Reference: EU Product Classification System)

Note: Each country applies its own national tariff nomenclature for imported products. It is therefore important to check the relevant government website of the importing country for the correct tariff code.

Scenario 1: A Vietnamese company that exports coffee beans (not roasted and not decaffeinated) to Thailand.

Tariff Classification Structure for coffee beans, not roasted and not decaffeinated		Description
HS Chapter (first 2 digits)	09	Coffee, tea, maté and spices
HS Heading (first 4 digits)	09.01	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion.
HS Subheading (first 6 digits)	0901.11	- Coffee, not roasted and not decaffeinated
Vietnam/ Thailand's AHTN Code (8 digits)	0901.11.10	- Arabica WIB or Robusta OIB
	0901.11.90	- Other
Note: Since Thailand is an ASEAN member, it uses the AHTN Code (8-digit level) as its tariff nomenclature.		

7. European Commission.The Combined Nomenclature [Online]

Scenario 2: A company manufactures in Thailand soya-bean oil and its fractions, whether or not refined, but not chemically modified. It imports raw materials from Australia, and exports the finished products to China.

Tariff Classification Structure for soya bean oil and its fractions, whether or not refined, but not chemically modified		Description
HS Chapter (first 2 digits)	15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes
HS Heading (first 4 digits)	15.07	Soya-bean oil and its fractions, whether or not refined, but not chemically modified
HS Subheading (first 6 digits)	1507.90	- Other
Thailand's AHTN Code (8 digits)	1507.90.10	- Fractions of unrefined soya-bean oil
	1507.90.90	- Other
China's Tariff Classification[8] (13-digit CIQ[9] code)	1507900000	Other soya-bean oil and its fractions (including fractions of crude soya-bean oil, not chemically modified)
Note: China has its own national tariff nomenclature (at 13-digit level by CIQ).		

Scenario 3: A Singapore company that exports sweet biscuits to EU or UK.

Tariff Classification Structure for sweet biscuits		Description
HS Chapter (first 2 digits)	19	Preparations of cereals, flour, starch or milk; pastrycooks' products
HS Heading (first 4 digits)	19.05	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products
HS Subheading (first 6 digits)	1905.31	- Sweet biscuits
Singapore's AHTN Code (8 digits)	1905.31.10	- Not containing cocoa
	1905.31.20	- Containing cocoa
EU's Combined Nomenclature/ UK's Tariff Classification		Completely or partially coated or covered with chocolate or other preparations containing cocoa
	1905.31.11	In immediate packings of a net content not exceeding 85g
	1905.31.19	Other
		Other
	1905.31.30	Containing 8% or more by weight of milkfats
	1905.31.91	Sandwich biscuits
	1905.31.99	Other
Note: EU has its own tariff classification called "Combined Nomenclature" and UK follows EU's system.		

8. TransCustoms. China HS Classification Service [Online]

9. China Inspection and Quarantine (CIQ)

Scenario 4: A company in China manufactures water products (including mineral and aerated waters, with added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages). It imports raw materials from Malaysia, and exports the finished products to Indonesia and Japan.

Tariff Classification Structure for waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured		Description
HS Chapter (first 2 digits)	22	Beverages, spirits and vinegar
HS Heading (first 4 digits)	22.02	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices of heading 20.09
HS Subheading (first 6 digits)	2202.99	- Other
Indonesia's AHTN Code (8 digits)	2202.99.90	- Other
Japan's Tariff Nomenclature[10]	2202.99.100	Containing added sugar
	2202.99.200	Other
Note: Indonesia uses the AHTN Code (8-digit level), whereas Japan applies their own national tariff codes for imported products.		

[10] Japan Customs. Japan's Tariff Schedule as of 22 October 2021 [Online]

STEP 03

Ensure that the product is offered tariff concessions (and not excluded from preferential treatment) under the relevant FTAs.

CAN YOUR PRODUCT ENJOY TARIFF CONCESSIONS UNDER THE RELEVANT FTAs?

STEP 3A: Check the MFN rate of the product. Ensure that it is not at 0%.

STEP 3B: Find out what the preferential rate offered for your product under a specific FTA scheme is. Note that preferential rate is applied per product per FTA.

STEP 3C: Compare the MFN rate and preferential rate under the FTA rate. The preferential rate must be lower than the MFN rate so as not to waste time and energy in applying for FTA.

References:

- MFN Rates
- ASEAN Tariff Finder
  - » Assessment of products' eligibility for tariff concessions (including applicable MFN rates and ROO) under ASEAN FTAs
- EU Trade Helpdesk
  - » Assessment of products' eligibility for tariff concessions (including the information on import duties and ROO) under EU FTAs
- China's import duties for imported goods
- Japan's Tariff Schedule as of October 2021

Scenario 1: A Vietnamese company that exports coffee beans (not roasted and not decaffeinated) to Thailand.

HS Code	Thailand's Import Duties								
	MFN	ATIGA	ACFTA	AJCEP	AKFTA	AIFTA	AANZFTA	AHKFTA	RCEP
0901.11.10	90%	5%	In-quota: 30% / Out-quota: 91%	*Excluded	In-quota: 0% / Out-quota 90%	*Excluded	*Unbound	*Excluded	*Unbound
0901.11.90	90%	5%	In-quota: 30% / Out-quota: 91%	*Excluded	In-quota: 0% / Out-quota: 90%	*Excluded	*Unbound	*Excluded	*Unbound

*__Unbound__, which is found in the "Tariff Rate" column of the AANZFTA tariff schedules, means that the corresponding tariff line is excluded from tariff commitment. Hence, the applicable import duty is the MFN rate.

*__Excluded__ means that the corresponding tariff line is excluded from tariff commitment. Hence, the applicable import duty is the MFN rate.

*__Tariff quota:__ Thailand applies tariff quota on its import of coffee products, which means that the in-quota rate shall apply to the first 5.25 tons of imported coffee beans, while out-quota rate shall apply to imported coffee beans beyond the first 5.25 tons.

Based on the above import tariff rates under the WTO and the available FTAs, the Vietnamese exporter (or any ASEAN exporter) to Thailand can substantially benefit from ATIGA. With an 85% margin of preference, a company can enjoy a 'tariff saving' of US$ 850,000 if the trade value is US$ 1,000,000. This also applies to the exportation of coffee beans from the other 8 ASEAN countries (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines and Singapore) to Thailand.

For this scenario, manufacturers and traders should take advantage of this substantial 'tariff savings' to gain competitive edge over competing firms from non-ASEAN countries.

Scenario 2: A company manufactures in Thailand soya bean oil and its fractions, whether or not refined, but not chemically modified. It imports raw materials from Australia, and exports the finished products to China.

For this scenario, Thai manufacturers and traders should check the import duties (i.e. MFN rate, TAFTA, AANZFTA and RCEP preferential tariffs) imposed by Thailand on the importation of raw materials (e.g. soya beans) from Australia. This is to see whether the Thai producer of soya-bean oil can further reduce its production costs through 'tariff savings'.

Tariff Classification Structure for Soya Beans		Description
HS Chapter (first 2 digits)	12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder.
HS Heading (first 4 digits)	12.01	Soya beans, whether or not broken.
HS Subheading (first 6 digits)	1201.10	- Seed
Thailand's HS/AHTN Code	1201.10.00	- Seed

Thailand's HS Code	Thailand's Import Duties			
	MFN	TAFTA	AANZFTA	RCEP
1201.10.00	80%[11]	0%	0%	2022: 36% 2023: 32% 2031: 0%

Subsequently, the Thai company should check the MFN and RCEP rates applied by China on the finished product (i.e. soya-bean oil).

China's HS Code	Product Description	China's Import Duties	
		MFN	RCEP
1507900000	Other soya-bean oil and its fractions (including fractions of crude soya-bean oil, not chemically modified)	9%	Unbound

Conclusion:

Soya-bean oil is not offered tariff concession (or excluded from preferential market access treatment) under RCEP. Hence, exportation of soya-bean oil to China from Thailand is subject to 9% MFN rate.

Nonetheless, Thai manufacturers can enjoy 0% preferential tariff duty for the importation of raw materials (e.g. soya beans) from Australia by using either the bilateral TAFTA or AANZFTA, as well as RCEP beginning 2031. This provides opportunity for Thai manufacturers to reduce its costs of producing soya-bean oil.

11. World Trade Organization. Trade Analysis Online [Online]

Scenario 3: A Singapore company that exports sweet biscuits to EU or UK.

Singapore exporters of products to any EU country can enjoy preferential tariffs under the EU-Singapore FTA, which entered into force in November 2019.

EU's CN Code	Product Description	EU's Import Duties	
		MFN	EU-Singapore FTA
	Completely or partially coated or covered with chocolate or other preparations containing cocoa		
1905.31.11	- In immediate packings of a net content not exceeding 85g	9%	4.5%
1905.31.19	- Other	9%	4.5%
	Other		
1905.31.30	- Containing 8% or more by weight of milkfats	9%	4.5%
1905.31.91	- Sandwich biscuits	9%	4.5%
1905.31.99	- Other	9%	4.5%

Conclusion:

Sweet biscuits are offered preferential market access under the EU-Singapore FTA (at staging category "5", where customs duties on originating goods shall be removed in 6 equal stages beginning from the date of its entry into force on 21 November 2019), and such goods shall thereafter be free of any customs duty from 21 November 2024 onwards.

Sweet biscuits that are exported from Singapore to EU enjoy more preferential rate of import duty (4.5% FTA rate versus 9% MFN rate), as well as additional taxes (12.10% for EU-Singapore FTA transactions versus 24.20% for non-FTA). Customs duties on exported sweet biscuits from Singapore to EU are expected to be eliminated beginning from 21 November 2024.

As UK has officially left EU, the EU-Singapore FTA shall not apply to exports of products from Singapore to UK, but rather exporters should use the bilateral UK-Singapore FTA. Under the UK-Singapore FTA, UK's timeline for tariff elimination matches the EU-Singapore FTA and the staging categories started from the EU-Singapore FTA's entry into force (i.e. 21 November 2019). Given these similarities between the EU-Singapore FTA and the UK-Singapore FTA, a Singapore exporter to EU can easily apply for the UK-Singapore FTA for its exports of products to UK.

UK's CN Code	Product Description	UK's Import Duties	
		MFN	UK-Singapore FTA
	Completely or partially coated or covered with chocolate or other preparations containing cocoa		
1905.31.11	- In immediate packings of a net content not exceeding 85g	8%	4.5%
1905.31.19	- Other	8%	4.5%
	Other		
1905.31.30	- Containing 8% or more by weight of milkfats	8%	4.5%
1905.31.91	- Sandwich biscuits	8%	4.5%
1905.31.99	- Other	8%	4.5%

Conclusion:

Singapore exporters of sweet biscuits to UK can enjoy substantial 'tariff savings' under the UK-Singapore FTA (4.5% FTA rate versus 8% MFN rate). Margin of preference will be at 8% beginning from 21 November 2024 when UK eliminates customs duties on imported sweet biscuits from Singapore.

Scenario 4: A company in China manufactures water products (including mineral and aerated waters, with added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages). It imports raw materials from Malaysia, and exports the finished products to Indonesia and Japan.

For additional 'tariff savings', the Chinese manufacturer should establish the tariff classification of the raw materials that are used in the production of the finished products, and check the FTA rates that are imposed by China for these imported raw materials from Malaysia by using either the ACFTA or RCEP.

The following tariff rates apply to the exportation of finished products from China to Indonesia and Japan:

Indonesia's HS/AHTN Code	Product Description	Indonesia's Import Duties		
		MFN	ACFTA	RCEP
2202.99.90	(Other) (Other) Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices	5%	0%	Year 1: 4.6%; Year 2: 4.3%; Year 3: 4%; Year 4: 3.6%; Year 5: 3.3%; Year 6: 3%; Year 7: 2.6%; Year 8: 2.3%; Year 9: 2%; Year 10: 1.7%; Year 11: 1.3%; Year 12: 1%; Year 13: 0.7%; Year 14: 0.3%; Year 15: 0%

Japan's HS/AHTN Code	Product Description	Japan's Import Duties	
		MFN	RCEP
	(Other) Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices		
2202.99.100	- Containing added sugar	13.4%	Year 1: 12.6%; Year 2: 11.7%; Year 3: 10.9%; Year 4: 10.1%; Year 5: 9.2%; Year 6: 8.4%; Year 7: 7.5%; Year 8: 6.7%; Year 9: 5.9%; Year 10: 5%; Year 11: 4.2%; Year 12: 3.4%; Year 13: 2.5%; Year 14: 1.7%; Year 15: 0.8%; Year 16: 0%

Japan's HS/AHTN Code	Product Description	Japan's Import Duties	
		MFN	RCEP
2202.99.200	- Other	9.6%	Year 1: 9%; Year 2: 8.4%; Year 3: 7.8%; Year 4: 7.2%; Year 5: 6.6%; Year 6: 6%; Year 7: 5.4%; Year 8: 4.8%; Year 9: 4.2%; Year 10: 3.6%; Year 11: 3%; Year 12: 2.4%; Year 13: 1.8%; Year 14: 1.2%; Year 15: 0.6%; Year 16: 0%

Conclusion:

The Chinese exporters of water products to Indonesia should use the ACFTA to enjoy duty-free customs duty instead of paying 5% MFN rate. Exporters can also use RCEP beginning of Year 15 from Indonesia's date of entry into force. As of December 2021, Indonesia has yet to ratify the RCEP Agreement.

Chinese exporters of water products to Japan can enjoy tariff reduction under RCEP starting from Year 1.The margin of preference gradually increases every year, until it reaches Year 16 when Japan has committed to eliminate customs duties on said water products.

STEP 04

Check the rules of origin (ROO) criteria of your product.

RULES OF ORIGIN – WHY DO WE NEED THEM?

Rules of origin (ROO) is an essential part of FTAs, because FTAs often apply substantially lower import tariffs to goods that come from partner countries. The agreed rules set out in the FTA determine whether a product can be considered as 'originating' in a FTA party, and eligible for preferential tariff treatment under a FTA. Therefore, it is essential to know your product's origin.

ROO basically determines the country where a product is sourced or made – its 'economic nationality' – and helps to ensure that customs authorities apply lower duties correctly so that businesses benefit from them. To qualify for a lower tariff under a FTA, your product must comply with the FTA's specific origin rules, which is applied on a per tariff line (at 6-digit HS Code) basis. Moreover, these rules vary from agreement to agreement and/or from country to country.

References:

- ASEAN Tariff Finder to check the origin criteria of your product for tariff concession under ASEAN FTAs.
- RCEP Chapter 3 – Rules of Origin (Annex 3A Product Specific Rules and Annex 3B Minimum Information Requirements to check the origin criteria for each tariff line (at 6-digit HS Code).
- EU Trade Helpdesk to check the origin criteria of your product for tariff concessions (including information on EU requirements, import duties, internal taxes, and ROO).
- UK Integrated Online Tariff to look up commodity codes, import duties, taxes and controls (including ROO requirements per tariff line).

DOES YOUR PRODUCT COMPLY WITH THE BASIC PRODUCT-SPECIFIC RULES?

Rules of Origin (ROO) is a set of criteria that is used to determine the "nationality" of a good to ensure that only goods that are originating from FTA Parties can benefit from tariff concessions.

Purpose:

- Determine the origin of the product
- Only "originating" goods from FTA parties can enjoy preferential tariffs, while products that are "originating" outside of FTA parties are not offered tariff concessions under the FTA.
- Disqualify minimal operations

STEP 4A:
Is your product **obtained/produced entirely** within the exporting country?

YES → **Wholly Obtained (WO) rule applies**

NO ↓

STEP 4B:
Does your product fall under the list of **Product Specific Rules (PSRs)?**

YES → **Product Specific Rule (PSR) applies**

NO ↓

General Rule applies

First, determine if your product is wholly obtained in the country of concern. If so, it could qualify for lower customs duties. Being wholly obtained is mostly relevant for live animals and agricultural produce.

If your product is not wholly obtained in the country of concern, it will have to comply with other product-specific rules. If there are alternative rules, your product only needs to comply with one of them.

Please refer to Annex B to understand better the different ROO criteria and how to comply with them.

TIPS TO HELP YOU COMPLY WITH THE PRODUCT SPECIFIC RULES

If your product does not comply with the basic product specific rules[12] directly, an additional set of rules may still help your product qualify for originating[13] status. Additional flexibility relates mainly to tolerance[14] and cumulation[15].

TOLERANCE

- The tolerance rule[16] allows the use of non-originating materials[17] that are normally prohibited by the product-specific rules up to a certain percentage – usually 10% or 15% – of the product's ex-works price.
- You cannot use this tolerance to exceed the value threshold of the allowed maximum of non-originating materials listed in the product-specific rules.

ACCUMULATION / CUMULATION

Cumulation is a provision which allows the consideration of goods obtained in or processed in one FTA member country as originating in another. Cumulation is an integral part of trade agreements and enables production sharing within the FTA territory.

There are three main types of cumulation[18]:

- Bilateral cumulation[19] **(two partners)** – used in bilateral FTAs and allows each member of the Agreement to use products that originate in the other member without the final good losing its originating status. Goods that are produced from originating materials in one FTA country and further processed in another country can be exported back to the first country and this could be counted towards the originating status. This means that raw materials can be sourced and processed in any of the two FTA countries.
- Diagonal cumulation[20] **(more than two partners that apply identical ROO)** – materials originating in a defined third country (mentioned in the relevant provision on cumulation) may be used as materials originating in your country.
- Full cumulation[21] – allows cumulation to be applied between any number of countries to goods not originating in the FTA member country and processed in the FTA territory. Full cumulation allows cumulating origin-counting processing to be added across the FTA territory even when the initial input is not originating. Full cumulation is the most flexible type of cumulation.

12. European Commission. Glossary term: Product Specific Rules [Online]
13. European Commission. Glossary term: Originating [Online]
14. European Commission. Glossary term: Tolerance [Online]
15. European Commission. Glossary term: Cumulation [Online]
16. European Commission. Glossary term: Tolerance rule [Online]
17. European Commission. Glossary term: Non-originating materials [Online]
18. Rules of Origin Facilitator. Accumulation/Cumulation [Online]
19. European Commission. Glossary term: Bilateral cumulation [Online]
20. European Commission. Glossary term: Diagonal cumulation [Online]
21. European Commission. Glossary term: Full cumulation [Online]

DOES YOUR PRODUCT ALSO SATISFY ALL OTHER APPLICABLE REQUIREMENTS?

If your product complies with all rules, you will then have to consider a number of **additional requirements**. The product has to meet all other applicable requirements, such as minimal operations[22] (sufficient working or processing) and rules on direct transport.

MINIMAL OPERATIONS - SUFFICIENT WORKING OR PROCESSING

- You must verify that the working or processing done in your country goes beyond the minimal operations required
- Minimal operations are listed in the ROO chapter of the FTA. They can include operations such as:
  - packaging
  - simple cutting
  - simple assembling
  - simple mixing
  - ironing or pressing of textiles
  - painting or polishing operations
- If the production[23] performed in your country is one of those listed and nothing else was made there, which means no material[24] was produced or transformed, the product cannot be considered as originating, even if the product-specific rules of origin were satisfied.

DIRECT TRANSPORT RULE OR TRANSPORT THROUGH A THIRD COUNTRY

- Even if your product is considered as 'originating', you will still have to ensure that the product was sent from the exporting country and reached the destination country without being manipulated in any other country, apart from operations that are needed to keep the product in good conditions.
- Each FTA sets out the specific conditions.
- Typically, trans-shipment or temporary warehousing in a third country is allowed if the products remain under the surveillance of the customs authorities and do not undergo operations other than the following procedures:
  - unloading
  - reloading
  - any operation designed to keep goods in good condition
- Please note that you will have to prove to the customs authorities of the importing country that your product was transported directly.

22. European Commission. Glossary term: Minimal operations [Online]
23. European Commission. Glossary term: Manufacture [Online]
24. European Commission. Glossary term: Material [Online]

DOES THE FTA PROVIDE FOR TRADE FACILITATION MECHANISMS TO ALLOW YOU MORE CERTAINTY AND REDUCE COSTS?

ADVANCE RULING

Also known as binding information or binding rulings, advance ruling is a provision that allows an exporter or importer to obtain an official and legally binding opinion on the (i) tariff classification, (ii) origin or (iii) customs value of their products from the local customs authorities prior to exporting/importing the goods. RCEP, for instance, has provision on advance rulings in these three areas.

Once the ruling is obtained it becomes legally binding on the customs authorities and offers the exporters a legal certainty and confirmation of the classification, origin or customs value of their products. In some countries, the ruling may also be binding on the applicant which means that once a ruling is obtained, the applicant is required to use it.

The application of this provision is usually based on the local customs legislation. The exporter or the importer applies to the local customs authorities under the applicable domestic procedure. Advance rulings are valid for a certain period of time as defined in the domestic customs legislation.

FTA parties agree to admit the goods subject to an advance ruling into their territory and specify the forms of administrative cooperation in case of any issues with the ruling. The rulings can be challenged and revoked if they were issued based on incorrect or incomplete information or if there have been any changes.

Exporters should contact the local customs authorities to obtain further information about the conditions of applying for an advance ruling.

STEP
05

Comply with documentary requirements.

IF YOUR PRODUCT IS 'ORIGINATING' (i.e. COMPLIES WITH THE ROO REQUIREMENT)

Once you know that your product qualifies for lower customs duties (your product counts as 'originating'), the next step is to prove its originating status to the customs authorities of the country of destination. Only then will you be able to pay lower customs duties.

PROVING YOUR PRODUCT'S ORIGIN

Each FTA sets out specific ROO procedures and requirements. The rules specify how you can prove your product's origin in order to benefit from the preferential tariffs.

Proof of origin

There are different types of proof of origin depending on the trade agreement. Typically, they are one of the following:

- A **Certificate of Origin (CO)** issued by the exporting country's customs authorities or in some countries, by the trade ministry. It is important to know the issuing authority of the country of origin.
- A **self-declaration or self-certification** by the exporter (often referred to as an 'origin declaration'[25] or an 'invoice declaration').

For **COs**, the trade agreement usually includes an example or template, with specifications on the information or data to be included, and provides instructions on how to complete it. For FTAs that require authorised COs, exporters must submit the necessary documents to prove the originating status of the products of concerned to the exporting country's issuing authority.

For **self-declarations**, the trade agreement indicates what text to be included on the invoice or on other documents that identify the products. To be able to self-declare the origin, the exporter[26] must usually be pre-authorised by the customs authorities with the status as 'Approved Exporter'[27] or "Authorised Exporter".

Proof of origin is valid for a specified number of months from the date of issue. Normally, no proof of origin is required for products of low value (i.e. *de minimis*).

25. European Commission. Glossary term: Invoice declaration [Online]
26. European Commission. Glossary term: Exporter [Online]
27. European Commission. Glossary term: Approved exporter [Online]

ANNEX A: LIST OF KEY FTAs IN THE REGION

(As of January 2022)

MEGA-FTAs:

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)[28]

DATE OF SIGNING	November 2020
MEMBER COUNTRIES	15 Asia Pacific countries – 10 ASEAN countries, Australia, China, Japan, South Korea and New Zealand
COVERAGE	Trade in goods (including customs and trade facilitation, sanitary and phytosanitary measures, technical barriers to trade, and trade remedies); trade in services; investments; economic and technical cooperation; e-commerce; intellectual property; government procurement; competition; SMEs; dispute settlement
STATUS	The Agreement entered into force on 1 January 2022, as planned, following the ratification of 6 ASEAN countries (Brunei Darussalam, Cambodia, the Lao People's Democratic Republic, Singapore, Thailand, and Vietnam) and 4 non-ASEAN [Australia, the People's Republic of China, Japan, and New Zealand]). South Korea deposited its Instrument of Ratification and the RCEP Agreement will enter into force in South Korea on 1 February 2022. The Philippines is in final steps towards ratification, while Indonesia and Malaysia are in different stages of their respective domestic ratification process.
RCEP MARKET SNAPSHOT	• GDP: US$26.3 trillion (30% of global GDP) • Population: 2.3 billion people (30% of the world's population)
KEY IMPACTS/OPPORTUNITIES FOR BUSINESSES	• **Expanded market access** – trade opportunities for businesses under more preferential treatment ('tariff savings'). • **More transparent and predictable regional trade environment** – very important especially in the context of COVID-19 pandemic and increasing protectionism. • **Single rulebook and certification procedures across 15 RPCs** – easier compliance and addresses the spaghetti/noodle bowl effect. • **Trade facilitation mechanisms that reduce time to export/import products** – crucial to maintain quality and safety of F&B products, such as aspects related to Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT). • **Opportunity to advance harmonisation agenda on non-tariff measures (NTMs) in the region** – transparency, equivalence, mutual recognition of international standards, non-adoption of unjustified NTMs. • **More integrated regional supply chain** – allows for the sourcing raw materials and selling of processed products at competitive prices. • **Increased competition** – cost-savings and possible relocation of businesses.

28. RCEP [Online]

COMPREHENSIVE AND PROGRESSIVE AGREEMENT FOR TRANS-PACIFIC PARTNERSHIP (CPTPP)[29]

DATE OF SIGNING

December 2018

MEMBER COUNTRIES

11 countries – Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam

COVERAGE

Trade in goods (including customs and trade facilitation, sanitary and phytosanitary measures, technical barriers to trade, and trade remedies); investment; trade in services; electronic commerce; government procurement; intellectual property; labour; environment; dispute settlement

STATUS

Implemented by Mexico, Japan, Singapore, New Zealand, Canada and Australia in December 2018, and Vietnam in January 2019, and more recently, Peru in September 2021. Brunei Darussalam, Chile and Malaysia have yet to ratify/implement the CPTPP.

Membership expansion: United Kingdom (31 January 2021), China (16 September 2021) and Taiwan (22 September 2021) formally expressed interest to join. The CPTPP Commission agreed to formally commence accession negotiations with the UK in June 2021. The Philippines (March 2021), South Korea and Thailand have also expressed interest to join.

CPTPP MARKET SNAPSHOT

- GDP: US$10.6 trillion
- Population: 499 million

KEY IMPACTS/OPPORTUNITIES FOR BUSINESSES

- **Expanded market access** – more trade opportunities for businesses under more preferential treatment ('tariff savings' on over 90% of traded goods), especially when other countries like the UK join the CPTPP.
- **Single set of high-standard rules for trade across the Asia Pacific region**, making trade more accessible, transparent and predictable.
- **Addresses key challenges and barriers**, such as TBT measures, reduces the time and costs of getting product. to CPTPP markets.
- **Simplified procedures for clearing goods through customs**, which reduces processing time at the border.
- **More integrated regional supply chain in the Asia Pacific region**, which allows sourcing of raw materials and selling of processed products at competitive price, especially when other Asia Pacific nations ratify (e.g. Malaysia) and join (e.g. South Korea, the Philippines, Thailand) the CPTPP.
- **Increased competitiveness** – substantial cost-savings for businesses.

29. New Zealand Ministry of Foreign Affairs and Trade (MFAT). Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) [Online]

ASEAN FTAs:

ASEAN FREE TRADE AREA (AFTA)

MEMBER COUNTRIES	10 ASEAN countries – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam
COVERAGE	Trade in goods, investment, and services It is made up of three agreements, namely the ASEAN Trade in Goods Agreement (ATIGA), the ASEAN Framework Agreement on Services (AFAS), and the ASEAN Comprehensive Investment Agreement (ACIA).
STATUS	Implemented since May 2010
KEY BENEFITS OF ATIGA	• Elimination of tariffs for virtually all product lines (99%) • Allows for back-to-back shipment of goods within member countries • Allows for third-party invoicing of goods • Allows for ASEAN Cumulation • Aims to eliminate non-tariff barriers (NTBs) and/or address non-tariff components of trade regulations that are imposed by ASEAN countries

ASEAN-CHINA FTA (ACFTA)

MEMBER COUNTRIES	10 ASEAN countries and China
COVERAGE	Trade in goods, investment, and services
STATUS	Implemented since July 2005
KEY BENEFITS OF TRADE IN GOODS UNDER ACFTA	• Tariff elimination for 94.6% of all tariff lines • Allows for back-to-back shipment of goods within member countries • Allows for third-party invoicing of goods • Allows for Regional Cumulation • Enhanced Product Specific Rules of Origin (PSRs) are more liberal, flexible and business friendly, and allow businesses to qualify for the benefits under the ACFTA more easily. • Safeguards market access and ensures a more predictable operating environment for service suppliers • Expanded Economic Cooperation and Technical Cooperation provisions relating to information sharing and capacity building allow micro, small & medium enterprises (MSMEs) to enhance their capabilities

ASEAN-JAPAN COMPREHENSIVE ECONOMIC PARTNERSHIP (AJCEP)

MEMBER COUNTRIES	10 ASEAN countries and Japan
COVERAGE	Trade in goods, investment, and services
STATUS	Implemented since April 2008
KEY BENEFITS OF TRADE IN GOODS UNDER AJCEP	• Elimination of tariffs for 84.5% of all tariff lines • Allows for back-to-back shipment of goods within member countries • Allows for third party invoicing of goods • Allows for Regional Cumulation

ASEAN-KOREA FTA (AKFTA)

MEMBER COUNTRIES	10 ASEAN countries and South Korea
COVERAGE	Trade in goods, investment, and services
STATUS	Implemented since June 2007
KEY BENEFITS OF TRADE IN GOODS UNDER AKFTA	• Elimination of tariffs for 84.5% of all tariff lines • Allows for back-to-back shipment of goods within member countries • Allows for third party invoicing of goods • Allows for Regional Cumulation

ASEAN-INDIA FTA (AIFTA)

MEMBER COUNTRIES	10 ASEAN countries and India
COVERAGE	Trade in goods, investment, and services
STATUS	Implemented since May 2011
KEY BENEFITS OF TRADE IN GOODS UNDER AIFTA	• Elimination of tariffs for 75% of goods traded between ASEAN and India • Allows for back-to-back shipment of goods within member countries • Allows for third-party invoicing of goods • Allows for Regional Cumulation

ASEAN-AUSTRALIA-NEW ZEALAND FTA (AANZFTA)

MEMBER COUNTRIES	10 ASEAN countries, Australia and New Zealand
COVERAGE	Trade in goods, investment, services and newer areas such as intellectual property, competition, e-commerce
STATUS	Implemented since May 2010
KEY BENEFITS OF TRADE IN GOODS UNDER AANZFTA	• AANZFTA is ASEAN's most comprehensive ASEAN-Plus FTA to date that is in force • AANZFTA eliminates tariffs for 90% of the goods traded between ASEAN, Australia and New Zealand. • Allows for back-to-back shipment of goods within member countries • Allows for third-party invoicing of goods • Allows for Regional Cumulation • Safeguards market access and ensures a more predictable operating environment for service suppliers • Includes a robust Investor-to-State Dispute Settlement Mechanism which gives investors greater protection in the form of recourse to dispute settlement in the event of conflict or expropriation.

ASEAN-HONG KONG FTA (AHKFTA)

MEMBER COUNTRIES	10 ASEAN countries and Hong Kong
COVERAGE	Trade in goods, trade in services, investment, economic and technical co-operation, dispute settlement mechanism
STATUS	Implemented since June 2019
KEY BENEFITS OF TRADE IN GOODS UNDER AHKFTA	• AHKFTA reduces technical barriers to trade • Simplifies requirements of the Certificate of Origin for application of preferential tariffs into Hong Kong • Allows for back-to-back shipment of goods within member countries • Allows for third-party invoicing of goods • Allows for Regional ASEAN Cumulation • Strengthens co-operation in SPS and TBT through information sharing and consultations

BILATERAL FTAs OF KEY COUNTRIES:

	Signed and in effect			Signed but not yet in effect
China	Australia APTA Asia Pacific Trade Agreement Chile Costa Rica Georgia	Hong Kong Iceland Macao Maldives Mauritius New Zealand	Pakistan Peru Singapore South Korea Switzerland	+ Eurasian Economic Union (Armenia, Belarus, Russia, Kazakhstan, Kyrgyz Republic) + Cambodia + US (Economic and Trade Agreement)
India	Afghanistan APTA Asia Pacific Trade Agreement Bhutan Chile Japan Malaysia	Mauritius MERCOSUR (Argentina, Brazil, Paraguay and Venezuela) South Korea Singapore	Sri Lanka South Asia (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka)	N.A.
Indonesia	Australia Chile	EFTA Japan	Pakistan	+ Indonesia-Mozambique Preferential trade Agreement was signed in August 2019. + Indonesia-South Korea FTA was signed in November 2019
Japan	Australia Brunei Darussalam Chile European Union India	Mexico Malaysia Mongolia Thailand Indonesia Peru	Philippines Singapore Switzerland United States United Kingdom Vietnam	N.A.
Malaysia	Australia India Japan	Chile Pakistan	Turkey New Zealand	N.A.
The Philippines	EFTA (Iceland, Norway, Liechtenstein and Switzerland)	Japan		+ Negotiations on FTA between the Philippines and South Korea were concluded – for signing in 2022
Singapore	Australia China Costa Rica EFTA (Iceland, Norway, Liechtenstein and Switzerland) European Union Gulf Cooperation Council (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman)	India Japan Jordan New Zealand Panama Peru Sri Lanka South Korea Taipei, China Turkey United Kingdom United States	Trans – Pacific Strategic Economic Partnership (Brunei Darussalam, Chile, New Zealand and Singapore)	+ Pacific Alliance (Chile, Colombia, Mexico and Peru) - concluded but not yet signed and in effect. Parties to work toward formal signing.
Thailand	Australia Japan	New Zealand China	Chile Peru	N.A.
Vietnam	Eurasian Economic Union (Armenia, Belarus, Russia, Kazakhstan, Kyrgyz Republic)	Japan South Korea Chile	European Union United Kingdom	+ To date, only 8 EU members have ratified the Investment Protection Agreement

ANNEX B: RULES OF ORIGIN (ROO) CRITERIA

PREFERENTIAL ORIGIN

Preferential origin is related to trade agreements which grant members access to domestic market at preferential tariffs .

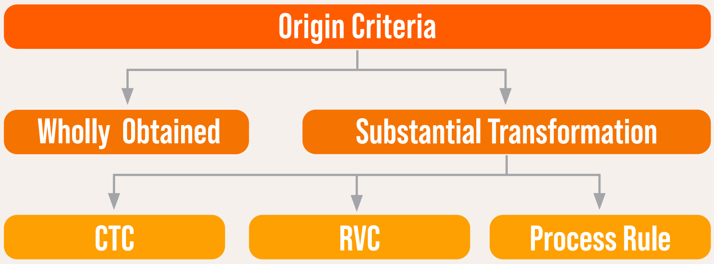
Rules of origin (ROO) are a set of criteria which determine a product's originating status in each FTA. It is put in place to ensure that only goods originating from the FTA partner country will benefit from tariff concessions.

The rules are based on the HS Classification and are, in most cases, product specific: each HS code eligible for preferential tariff under a trade agreement has a rule of origin. They can be set at different levels: some rules cover an entire Chapter, while some are specific to Headings or Subheadings. In certain cases, rules of origin can be defined at the commodity code / national tariff line level or even for a certain type of products within one HS or commodity code.

ROO are negotiated separately for every FTA and are attached to the main agreement in the form of a protocol or an annex on product specific rules (PSRs). As such, ROO vary significantly across FTAs.

THERE ARE TWO MAIN TYPES OF PRODUCT SPECIFIC RULES OF ORIGIN:

1. **Wholly obtained**
2. **Substantial transformation**



1. WHOLLY OBTAINED (WO):

a good that is wholly grown (e.g. live animals and plants, minerals) or wholly produced (e.g. produced entirely from originating materials)

Examples: Phillipine milkfish | Phillipine banana | Hand woven Seagrass & Abaca Side Chair with a Philippine Mahogany wood frame

2. SUBSTANTIAL TRANSFORMATION:

a good that contains non-originating materials/components but has undergone sufficient degree of "processing"

2.a) **Change in Tariff Classification (CTC):** a good is "originating" if the final product has a different HS code from that of the foreign raw materials

i)	Change in Chapter (CC)	Change in the first 2 digits of the HS Code of the product
ii)	Change in Tariff Heading (CTH)	Change in the first 4 digits of the HS Code of the product
iii)	Change in Tariff Subheading (CTSH)	Change in the first 6 digits of the HS Code of the product

Information required: (i) HS code(s) of foreign raw materials; and (ii) HS code of finished product

Examples:

ROO	Foreign materials	Finished Product
CC	5206.25 Cotton yarn	5806.31 Woven cotton fabric
CTH	7318 Iron/steel screws 7304 Pipes	7321.12 Cooking appliances & plate warmers: for liquid fuel
CTSH	8467.92 Parts of pneumatic tools 8467.99 Other part	8467.11 Pneumatic: rotary type [tools] (including combined rotary percussion

2.b) **Regional Value Content (RVC) / Value-Added Rule:** a product is "originating" if the specified value content of all originating materials is met

RVC Methods: There are generally two approaches that can be used to calculate the RVC:

a)	Build-Up (BU)	$RVC = \frac{\text{Value of locally produced materials + direct labour \& overheads + profit}}{\text{FOB Value}} \times 100\%$
b)	Build-Down (BD)	$RVC = \frac{\text{FOB Value – Value of non–originating materials}}{\text{FOB Value}} \times 100\%$

Components of product costing: (i) raw materials (local/foreign origin); (ii) direct labour/overhead (local); and (iii) profit (local)

RVC Definitions:

- **Originating Material Cost:** the value of originating materials, parts or produce that are acquired or self-produced by the producer in the production of the good;
- **Labour Cost:** wages, remuneration and other employee benefits;
- **Overhead Cost:** the producer's total overhead expense;
- **Other Costs:** costs incurred in placing the good in the ship or other means of transport for export, including, but not limited to, domestic transport costs, storage and warehousing, port handling, brokerage fees and service charges;
- **FOB:** the free-on-board value of the goods, inclusive of the cost of transport to the port or site of final shipment abroad. This value is to be arrived at in accordance with the General Agreement on Tariffs and Trade (GATT) rules on customs valuation;
- **Value of Non-originating Materials:** the cost-insurance-freight (CIF) value at the time of importation or the earliest ascertained price paid for all non-originating materials parts or produce that are acquired by the producer in the production of the good. Non-originating materials include materials of undetermined origin but do not include a material that is self-produced;
- **CIF:** the value of the good imported and includes the cost of freight and insurance up to the port or place of entry into the country of importation. This value is to be arrived at in accordance with the GATT rules on customs valuation.

2.c) **Process Rule:** a good is "originating" if the key manufacturing process that characterises the product occurs. This is usually applicable for chemical products where the product will be considered as originating if it is produced through a specific chemical process that occurred in a FTA Party.

Information required: (i) raw materials; (ii) end-product; and (iii) process done

Example:

Raw Materials (Foreign Origin)	Process	Finished Product
Lye (sodium hydroxide)	Saponication	Soap
Tallow (rendered beef fat)		
Olive oil		
Soap wrapper		

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