

What do FTAs do for manufacturers?

- Reduce/eliminate taxation on imported products
 - It's preferential...only for goods made in nations party to the FTA
 - Makes imports from nations party cheaper than imports from countries not party
 - Manufacturing exporter doesn't pay this tax
 - But, its important because the importer pays this tax, raising effective cost of the good.

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

Substantial gains to be had

- FTAs will save not only on duty...
 - Other taxes like VAT, port fees, etc. are based on FOB value + duty
 - In these cases you'll save a little more than just the duty itself.
- To capture the benefits you'll have to prove origin status when shipping to Mexico, Chile, Jordan, Morocco, and Australia.

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

But wait!

- Don't products have to be manufactured "from the ground up" in the US for the goods to qualify for FTA benefits?
 - No! FTAs allow companies to use materials from all the partner nations in an effort to qualify the good for the FTA.
 - Materials don't even have to be all from the partner nations for the good to qualify, just a substantial percentage of them.

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

What are the rules?

- When a client calls up and asks whether or not your good qualifies for tariff reductions, you need to have an answer for them.
 - Preferential Rules of Origin define exactly what enough work actually is
 - If your good complies with its rule of origin, it qualifies for the FTA benefits via Preference Criterion B.

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

Case Study: Motorized Delivery Cart

Good:

- Schedule B 8709.19
- Made in Illinois

Non-Originating Materials:

- See the B/M



BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

US – Australia FTA: Criterion B

Transformation + RVC
RVC via build-up method:

$$RVC = \left(\frac{VOM}{AV} \right) \times 100$$

AV = Adjusted Value of the good

- Does not include any costs, charges, or expenses for transportation, insurance and related services incident to international shipment of good
- VOM = Value of Originating Materials
- If not included in cost of VOM, add: freight, insurance, packing, other transportation costs; non-recoverable duties, taxes, customs brokerage fees

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

US – Australia FTA: Criterion B

Transformation + RVC $RVC = \left(\frac{AV - VNM}{AV} \right) \times 100$
RVC via build-down method:

AV = Adjusted Value of the good

VNM = Value of Non-Originating Materials

- If included, deduct: freight, insurance, packing, other transportation costs; non-recoverable duties, taxes, customs brokerage fees

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

RoO for US-Jordan and US-Israel FTAs

Each FTA uses only 1 RoO $RVC = \left(\frac{VOM}{AV} \right) \times 100$
RVC must be > 35%:

AV = Adjusted Value of the good

VOM = Value of Originating Materials

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

Who Certifies Origin?

- NAFTA – Producer or Exporter
- Chile - Importer, Exporter or Producer
- Jordan – Exporter
- Israel – Exporter
- Australia – Importer
- Singapore – Importer
- Morocco – TBD when Morocco ratifies

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

The Audit Trail

Evidence is required to support FTA certification...

Without it, you could get fined or...

Lose access to an FTA's benefits!

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

NAFTA Penalties for US Exporters

Can't maintain a paper trail?

- Up to \$10,000 fine from CA or MX
- Denial of NAFTA benefits in CA or MX

Provide a false cert?

- Denial of benefits in CA or MX
- Fraud Prosecution under 19 USC 1592
- Addl. sanctions for collusion

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship

The Audit Trail

Anyone who claims the tariff preference in an FTA **must retain all relevant records relative to the origin of the goods for up to ten (10) years (commonly only 5 years) after the date which the certificate was signed.**

Mod Act Penalties for US Importer:

- Negligent: \$10,000 or 40% of entered value
- Willful: \$100,000 or 75% of same

BRADLEY
UNIVERSITY
Foster College of Business Administration
Turner Center for Entrepreneurship