

Customs Flash

Efficient use of EU free trade agreements

On 9 November 2017, the European Commission published the first edition of the annual Free Trade Agreement (FTA) Implementation Report. The goal of the report is to assess transparency and highlight progress as well as problems and shortcomings. The main conclusion of the report is that there is an untapped potential in FTAs, due to their insufficient utilisation.

FTAs are negotiated between two (or more) parties and aim to liberalise trade, and meet social and environmental objectives. The EU has a wide variety of FTAs in place with different partner countries and/or regions, and is continuously negotiating new agreements. The main differentiator in current FTAs is that they cover services and investments, which have not been taken into account in FTAs negotiated before 2006 (which only applied to trade in goods). Plans to update these pre-2006 FTAs are being discussed, with the aim of establishing a better match with the more complex economic reality.

The main incentive to negotiate FTAs is achieving an increase in exports from and imports into the EU. This is pursued by, among others, assigning preferential tariffs on import in both the EU and its partner countries or regions. In practice, it can generally be concluded that the FTAs in place generated a higher GDP for both parties to the agreement, but have also proven to be more beneficial to the EU overall. In times of economic recession, FTAs have had a stabilising effect, as corroborated by statistical data from the last decade.

At the same time, however, the European Commission established that there is a rather low uptake of FTAs by European companies. It has identified three main reasons for this:

- Lack of awareness of existing FTAs
- Difficulties in understanding the rules for obtaining preferential origin
- Cumbersome procedures for obtaining documents needed to benefit from preferential treatment.

What does this mean for you?

Procured as well as produced or processed goods that comply with the rules of origin, set out in the FTA with the specific country or region with which a company is trading, can in principle be imported into the EU or the partner countries at lowered import duty rates. The effect of this is twofold:

- Import into the EU of raw materials for production at a lower cost (reduction of standard cost)
- Procurement by the buyer of a company's products at a lower cost upon export to an FTA country.

Consequentially, this results in increased competitiveness in countries having signed an FTA with the EU and in the local and global market. The financial savings from the efficient use of FTAs could therefore be beneficial to a company's future business and that of its customers.

What to do?

When an organisation is exporting to or importing from countries that have an FTA with the EU, an assessment on possible duty optimisation and eligibility for preferential origin claiming should be performed.

The [Deloitte Global Trade Radar](#) can be used to perform a preliminary assessment on historical data for a range of products and provide valuable insights into untapped trade preference potential.

The Global Trade Advisory team is readily available to assist with any questions concerning preferential origin determination, possible duty saving opportunities or FTAs in general.

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