



# FTA utilization – An opportunity in waiting for Indian industry!

## Low rate of FTA utilization in India as compared to global average

Reports suggest that FTA utilization is as high as 70-80% in developed countries while in India - by Indian exporters and importers, FTA utilisation is less than three percent of the available opportunity. The low utilization highlights the alarming failure to utilize the benefits available to the industry through bilateral and multilateral trade agreements.

The Indian industry needs to take notice of the latent opportunity waiting to be harnessed.



## Key reasons of low rate of FTA utilization

The reason for low utilization of FTA in India can be attributed to various factors but a few important ones are as follows:

- Low awareness about FTAs and Rules of Origin (RoO) in the Industry about the benefits under the trade agreement
- Poor participation of the industry in trade negotiations

- Lack of skill set, specialisation, and focus on setting up auditable FTA origin management system by the industry
- High cost of FTA compliance – tariff equivalent cost of FTA utilization is estimated to be 3%
- Misaligned benefit and costs – Exporter bears the cost of obtaining the Country of Origin (COO) while the benefits of duty reduction accrues to importer
- Non-tariff barriers in the importing country

- Revenue bias of the customs administration in the country of import

The above factors provide an interesting opportunity for the industry. Increasing the utilization of FTA by importers and exporters can go a long way in correcting some of the trade distortions where the partner country has been able to get the access to Indian market but the Indian industry has failed to reap the benefit of trade agreements.

## How Deloitte can help

Our Customs and International Trade Services Group and respective participating FTA countries have extensive experience in maximizing the opportunities under FTAs across any specific trade lane.

We can assist companies in:

- Raising awareness amongst stakeholders on the benefits of FTA utilization
- Monitoring FTA utilization for the company
- Setting up auditable origin management system
- Determining and validating the customs classification of products to be imported or exported
- Advising on tax efficiency on international procurement chain
- Evaluating the eligibility of an HS code for preferential treatment
- Examining fulfilment of Rules of Origin criteria for specific shipment or new product or model
- Identifying process for claiming preferential treatment under trade agreement
- Assisting in preparation of application for Country of Origin certificate
- Obtaining Country of Origin certificate from issuing authority / relevant Chamber of Commerce
- Supporting origin defense in case of audit or investigation

## Current trade agreements

India has signed more than eighteen trade agreements, including Generalised System of Preferences (GSP) benefits offered by developed countries. India has signed up key trade agreements with ASEAN countries, Japan, Korea, Singapore, SAARC countries, SAPTA, and is eligible for benefits under GSP offered by developed countries. GSP offers preferential rate of duty in twenty nine countries including EU, USA, Australia, New Zealand, Japan, etc.

In addition, India is in active discussion on RCEP (Regional Economic Cooperation Partnership) which could be a mega regional trade agreement with 16 participating countries.

It is very important for companies dealing in International Trade to be aware of trade agreements, products, countries, rules of origin, certifying agency etc., so as to bring down the cost of international trade and hence make the business more profitable.

## Improving the rate of FTA utilization by Indian companies

### For Exporters – Setting up of origin management systems

Origin management is the holistic approach toward creation of a single, auditable, and global platform that enables companies and governments to successfully claim preferential origin and sustain, review, and audit preferential claims. Origin management is important for setting up processes and systems for **origin claims**, get better market access for exporters, and better price discovery.

This can be achieved in various ways. By setting up of FTA facilitation centers to help the exporters in gaining knowledge and expertise about FTA, familiarity with ROO, method of obtaining COO etc. A high level origin management process involves determining:

- Bill of material used for production of export product

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- Computation of value addition or local value content requirement
- Evaluating the significant transformation requirement under Rules of origin
- Enhanced price negotiation ability for the exporter of goods from FTA partner country trade
- Sourcing the pricing information for inputs and raw material used
- Integration with company ERP for supporting the application for certificate of origin
- Regular training for operations, finance, commercial and logistics team around trade agreements

Developed countries and large multinational organizations have mastered the art of setting up origin management systems; consequentially they have been able to reap the benefits of FTA.

### For Importers – Awareness of preferential duty benefits under various FTAs

Some important elements of improving the rate of FTA utilization is to:

- Increase awareness about the products covered under various FTA processes required to claim the preferential duty benefit,
- Develop familiarity with the Rules of origin and Certificate of origin, and
- Closely co-ordinate between various functions of an organization around key elements of the trade agreement.

Absence of knowledge and awareness of trade agreements is an important roadblock to improving FTA utilization. This impediment can be removed by continuous focus on training and skill development around trade agreement.

### Preparedness for origin defence in case of audit and investigation

India, being the donor country in cases of import of goods under preferential treatment, examines the accuracy and correctness of the origin claim. Customs is one such agency in India which may investigate any fraudulent or wrongful claim of preferential duty.

Importers need to ensure that they have systems and processes in place to be able to demonstrate the following in case of audit or investigation by customs:

- Goods have been directly brought into India from the country of export as per the conditions of the rules of origin
- Duty benefit has been claimed rightfully and there is a verifiable audit trail supporting the claim of country of origin
- All the details required in the Certificate of origin are correctly populated and the certificate of origin is complete in all way
- The customs classification of the products, correct and consistent disclosure of product and valuation details in the import invoice and the country of origin certificate.