Challenges of applying ROOs for private sectors and potential solutions in exploring...

Dr. LI LI
WCO Accredited Expert
Founder and CEO of Shanghai O-Tech Co., Ltd.
Part One: Main Challenges of applying ROO for private sectors

Part Two: Potential Solutions in exploring
About O-tech

- O-tech is a High-tech company from Shanghai, China, which focus on providing trade compliance and customs affairs consulting service.

- With the application of AI, big data, Information&Communication Technology such technical solutions, to help traders to enhance the FTA preference utilization and trade efficiency.
Activities of O-tech for FTA

Dr. Li Li

- Expert of Origin certified by World Customs Organization
- J.D., East China University of Political Science and Law
- Postdoctoral Fellow in Economics, Fudan University
- Former Professor of Shanghai Customs College

Textbook of the main course Introduction of Customs Control

Introduction of Customs Control

ROO - guideline of theory and practice

Works of ROO - guideline of theory and practice. Written with Mr. Liu Ping, former director of tariff and trade affairs directorate, WCO
Activities of O-tech for FTA

- We have collaborated with more than 30 provincial governments and Commerce Chambers, to carry out FTA training and enterprise investigation during the past 4 years.

- Through online questionnaire and on-field survey, we analyzed the difficulties and challenges of around two thousands of companies especially SMEs, including Shanghai, Jiangsu, Zhejiang, Guangdong, Shandong those eastern costal aeras of big-scale trade amount, and Guangxi, Yunnan, Sichuan those provinces that appears increasing trade trend through E-commerce.
Part One: Main Challenges of applying ROOs for private sectors

I. How to compare and select best tariff

II. How to find, understand and use the ROO
I. How to compare and select best tariff

1. Firstly, it is hard for SMEs to search which FTA and its tariff rate is most favorable. Because a country may have more than 2 sets of FTAs with China, which provides different tariff preference for a certain product.

2. Sometimes traders may assume the latest FTA will give the best treatment.

3. And some traders only rely on the FTA which they once used, and don’t have skills to keep touch of updating information of FTA.
Take the trade between China and South Korea for example. When importing, traders have three choices need to compare, including China - South Korea FTA, Asia-Pacific Trade Agreement and RCEP.

- HS code: 850170
- (Photovoltaic DC generators)
- MFN rate: 12%
- China-South Korea FTA: 7.8%
- APTA rate: 7.8%
- RCEP rate: 6%
Example: how to compare and select best tariff

Searching Tools:

- HS code: 040900
- MFN rate: 15%
- CN-NZ FTA rate: 0%
- RCEP rate: 14.3%

- With the certificate of origin issued by New Zealand, a trader in China can enjoy 0 tariff rate with 15% cost saving.

- If the traders just simply assume the latest FTA provides the best treatment, they may take use of RCEP tariff (14.3%) by mistake.
Example: how to compare and select best tariff

Prepared cat or dog food in airtight containers from New Zealand

- The importers should compare which FTA's origin rules are easier to satisfy.
I. How to compare and select best tariff

- For exports, traders encountered the similar challenges as imports, and sometimes even harder.
- Chinese exporters need to search and compare the tariff rates implemented in importing countries under different FTAs. While the information source is not easily available.
- On the one hand, SMEs do not know which foreign public website is reliable and can provides accurate and correct information. On the other hand, official websites of other FTA members will use English or foreign languages, which is hard for SMEs to understand.
Example: Challenges for exports

- Regarding the WCO has realized the harmonization among members at 6-digit level, difficulties will be encountered in 8-digit level.

- Sometimes, Chinese exporters found the same products may classify into different HS codes of exporting and importing members. Or, the HS code of exporting member does not exist in importing member.

- For example, the weaving product of silk is classified into HS 58042910 in China, while the HS code cannot be found in South Korea. So, the exporter need to have the knowledge of South Korea's FTA and HS code, and classification skills. And then, they can confirm the HS code in importing country and the FTA tariff rate.
Another example, the laundry soap is classified into HS 34011910 in China, while the HS code cannot be found in Japan.

So, the exporter need to have the knowledge of FTA and HS code, and classification skills of Japan.

And then, they can confirm the HS code in importing country and ROO as well.
Part One: Main Challenges of applying ROOs for private sectors

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II. How to find, understand and use the ROO
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- The HS is changing each year and will have a big change each 5 years under WTO. Some HS code may add, merge or disappear. If the FTA was negotiated with an old HS version, while entered into force for 5 or 10 years later. Traders may not able to find the ROO under the new HS version.

- For products manufactured with different spare parts from different countries, how to judge whether the products satisfy the origin criteria and have origin qualification.
### Take RCEP for example

<table>
<thead>
<tr>
<th>Name of Commodity</th>
<th>Most Favoured Nation Tariff (%)</th>
<th>General Tariff (%)</th>
<th>Name of Commodity</th>
<th>Most Favoured Nation Tariff (%)</th>
<th>General Tariff (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-Phenyl acetylacetonitrile</td>
<td>6.5</td>
<td>30</td>
<td>APM</td>
<td>6.5</td>
<td>30</td>
</tr>
</tbody>
</table>

### Example: How to find, understand and use the ROO

- The RCEP was negotiated based on the 2012 HS version and entered into enforce in 2022.
- Some new HS code (eg. 29096010) was not exist in RCEP PSR, traders cannot find the ROO by PSR.
Example: How to find, understand and use the ROO

- ROO is very complex and require good understanding of all customs technique, including classification and customs value.
- In most FTAs, besides origin criteria, many other additional criteria need to considered, such as Accumulation, De minims, Package materials.

<table>
<thead>
<tr>
<th>Product Name</th>
<th>HS code</th>
<th>Unit price</th>
<th>Weight</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Console hydraulic pump station</td>
<td>85371090</td>
<td>12,000.00 CNY</td>
<td>120KG</td>
<td>U.S.</td>
</tr>
<tr>
<td>Motor</td>
<td>85015300</td>
<td>8,900.00 CNY</td>
<td>80KG</td>
<td>U.S.</td>
</tr>
<tr>
<td>Workbench</td>
<td>84669400</td>
<td>29,700.00 CNY</td>
<td>100KG</td>
<td>South Korea</td>
</tr>
<tr>
<td>Punch press mechanism</td>
<td>84669400</td>
<td>15,000.00 CNY</td>
<td>200KG</td>
<td>Thailand</td>
</tr>
<tr>
<td>Hydraulic cylinder</td>
<td>84122100</td>
<td>11,000.00 CNY</td>
<td>120KG</td>
<td>Japan</td>
</tr>
<tr>
<td>Liquid filler</td>
<td>84812010</td>
<td>11,530.00 CNY</td>
<td>100KG</td>
<td>U.S.</td>
</tr>
</tbody>
</table>

- Different FTAs have different members. Accumulation rule can only be used among member countries of the same FTA. Traders sometimes may confused and make mistakes. For example, if this company applied for Form E, it cannot accumulate the materials form Japan or South Korea.
- When take use of accumulation rules, the company need to ask for CO from exporters. While the company still found it is hard to judge whether the CO they received is valid or not. They have no CO verification website or tools.
Example: How to find, understand and use the ROO

- If a company have batches of BOM, it is hard for them to update the materials information and judge the origin results by manual calculation. Origin compliance management will be a huge and time-waste task.

- The additional rules are very important, as they may change the origin qualification results.
- For example, if the certain accessories cannot satisfy the CTC rule, but can satisfy the De minims rule by weight, it still can enjoy origin treatment finally.
Part Two: Potential Solutions in exploring

I. Public Inquiry Platform for SMEs
II. Technology Application: Practice of Big Enterprises
III. Talent Training: Universities ‘effort
I. Public Inquiry Platform for SMEs

- Many countries that have good utilization of FTA, pay attention to Public Inquiry Platform. Such as South Korea Government provides Unipass for SMEs.

- In China, many provinces provides FTA information for SMEs by Single Window or FTZ Public Platform, help SMEs to search the FTA best tariff, ROO and to do origin qualification judging by system automatically.
China(Guangxi) International Trade Single Window provides multiple searching tools, including website and app, to help SMEs find and use the FTA and ROO.
Example: Public Inquiry Platform for SMEs

Dalian Area of China (Liaoning) Pilot Free Trade Zone provides online FTA searching and off-line training, consulting and operation service, to help SMEs to understand and use CO.
Some cross-border enterprises have very good practice and experience in FTA arrangement. Most of those enterprises will adopt new technology instruments instead of traditional manual management.

Based on ERP system, they will develop FTA and origin management system to implement FTA tariff compliance management, origin determination, FTA preference utilization and tariff saving analysis, and document collection management.
Example: Technology Application

An American-funded automotive spare parts company, have set up business in China and Asia-Pacific region, with total amount of imports and exports over 2 billion US dollars per year.

To reduce the supply chain and trade cost, the company established FTA management system and operation team.

Through APTA and China-South Korea FTA, their tariff saving between China and South Korea amount to over US$5 million per year.
Carrying out trade compliance management and internal audit yearly. Implement both pre-clearance compliance plan and post-audit review.

Take use of AI and technology instruments to assist daily operation and compliance management work. For the companies applying for Approved Exporters, they can use the AI system to sign CO themselves.

Documents collection and saving in digital. Help to satisfy AEO qualification application and review requirements.
An important reason for SMEs’ low utilization is because the FTA and ROO talents trained from universities are insufficient. Most SMEs can not find competent graduates to use FTA, and the consulting fees of law firms are too high for them to burden. Therefore, more and more universities have paid more effort to train graduates with new skills that the industry markets demand.

Shanghai Customs College is the only full-time undergraduate higher education school directly under the GACC (General Administration of China Customs). The College also undertakes the tasks of continuing education, capacity building for middle and senior officers in China Customs, and the training from World Customs Organization (WCO) and Asia-Pacific region.

O-tech has long term collaboration with SCC in the field of Internship practice base and talent training.
SUIBE established School of Trade Negotiations in October 2017. It is the first specialized institution in China to train trade negotiators. It was one of the earliest academic institutions in China to carry out the WTO research and education.

As the host institute of the WTO Chairs Programme (WCP) initiated by the WTO Secretariat, the School has developed itself to be a core participant in the global academic network of the WTO Secretariat.

- O-tech help SUIBE to train trade negotiators, by providing Education.
- Those university graduates have FTA and trade knowledge, and technology skills, which help them a lot to find good jobs in good institutions.
Suggestions

1. More workshop and capacity building programs organized by WCO. Have more opportunities to know potential collaborative partners and peers.

2. To provide an information sharing platform, where each member country can public and update the FTA information websites address, to help SMEs to find and achieve latest importing countries’ tariff and ROO information.

3. To periodically recommend and public best practice of Public Service or Enterprise’s good experience. Through those case study to enhance utilization capacity of SMEs in developing and undeveloped Members.
Advocate of Digital Trade
AI Expert of FTA Trade

Shanghai Orange-tech Co., Ltd.
Contact us : 400-099-9825
E-mail : info@otechsolution.com
www.otechsolution.com