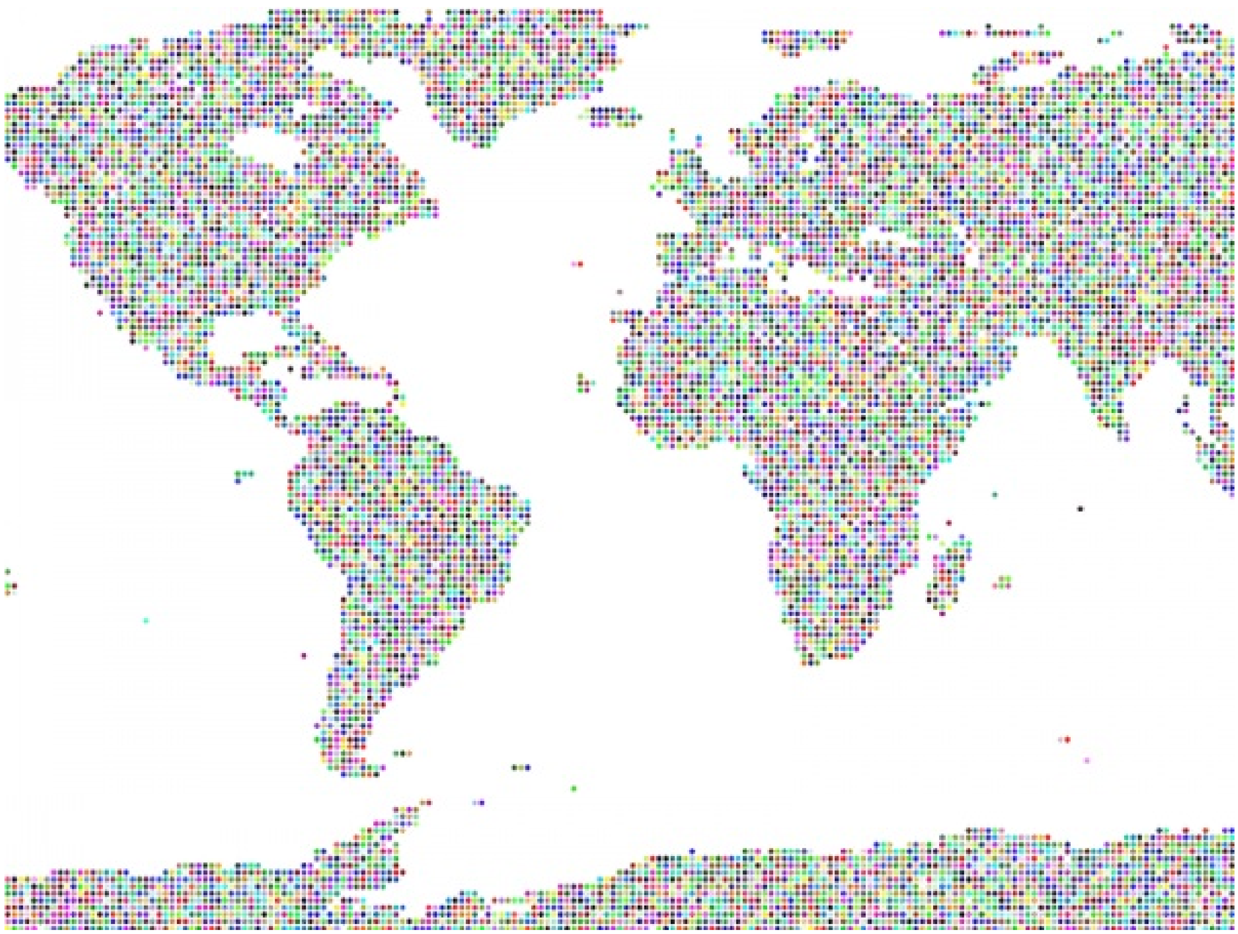
SOURCING JOURNAL

Op-Ed: How Leveraging Free Trade Agreements Can Improve Your Margins

sourcingjournalonline.com/free-trade-agreement-improve-margins/

10/27/2017



Free trade agreements and foreign trade policies are making headlines more than ever in the past few years, especially the renegotiation of the North American Free Trade Agreement (NAFTA). It has been a slow and often contentious process with meetings planned for mid-November, but all signs indicate it will drag well into next year.

Apart from NAFTA, the Trump Administration is still not showing any forward activity toward new bilateral trade agreements with other nations. And meanwhile, the European Union has struck numerous bilateral agreements with major economies that will be beneficial for all parties involved.

For those doing business globally and facing high duties in their target markets, leveraging free trade agreements is an attractive option to improve margins. Similar to FTAs, trade preference programs offer sourcing opportunities to support developing economies by granting duty-free access to the U.S. market – a lucrative offering for those exporting economies and importers seeking lower cost of goods.

Many U.S. companies are risk-averse

Despite the appeal of cost-savings and entry into new markets, FTAs and preference programs aren't well-utilized in many industries. Dr. Sheng Lu, from the Department of Fashion and Apparel Studies at the University of Delaware, recently reported in the United States Fashion Industry Association's (USFIA) Annual Sourcing Benchmark Study, that the utilization of major FTAs continues to fall year over year. The report suggests it is increasingly common for U.S. companies to give up the duty-saving benefits even when they source apparel from regions where trade agreements are in place.

"Most of the FTAs/trade preference programs enacted by the U.S. and its trading partners remain underutilized in 2017," said Dr. Lu, "and, as a matter of fact, many of them are utilized even less by U.S. fashion companies than previous years conducting this study."

Dr. Lu reports that companies point to the strict, complicated rules of origin and heavy documentation requirements for programs as deterrents to taking advantage of the duty savings offered by FTAs and preference programs. The study confirms that many executives feel that FTAs aren't "worth the time and resources required to comply with programs and obtain the required documents from the suppliers."

Recent Amber Road sponsored surveys confirm similar responses across multiple industries. According to the American Shipper report, Bridging the Sourcing-Global Trade Divide, outside of NAFTA, usage of other U.S.-centric trade deals lag. Respondents cite a lack of trade agreements in the regions where sourcing is prevalent as the primary reason.

As companies struggle to distinguish themselves from the competition and fight against the threat of e-commerce, utilizing FTAs and preference programs can be a strategic sourcing decision that pays off.

The rewards are tangible

As of 2017, there are over 500 trade agreements in force around the globe; the U.S. alone has trade agreements in force with 20 markets around the world. Each of these represents an opportunity for growth, both strategic and economic. One of the most fundamental, but impactful, global trade initiatives a company can undertake is sourcing optimization to make the most of duty savings programs like FTAs and trade preference programs. Sourcing decisions based on FTA eligibility can deliver rewards in more than one area.

• **Increased margins:** Most companies base their sourcing decisions on commodity price alone, but if they factor in duty rates associated with free trade programs, they may find it is actually cheaper to source in another country. Duty savings programs can save importers and exporters many millions of dollars annually, directly affecting the bottom line.

• **Supplier base diversification:** Long-term sustained success of companies is hugely dependent on the resiliency of their suppliers. Companies can use diversification to mitigate potential risk and disruptions, while chasing the opportunity to save on product costs through duty savings at the same time.

• **Support to developing regions:** GSP programs support economic growth and development in beneficiary countries by helping these countries to increase and diversify their trade with the U.S. and other nations. Providing duty-free treatment for designated products, the cost savings are supplementary to the support your company provides to the sourcing regions' economy.

The case for automating FTA management

Complying with the requirements of any trade agreement without automation can be difficult and expensive, with high risk of manual error. Finished goods must satisfy rules of origin (ROO) applicable for a given preferential agreement to qualify. The complexity of the rules varies with the finished goods' classification. In addition, special provisions for certain products, like light & heavy automotive manufacturers in NAFTA, present additional challenges to meet the qualification criteria for passenger vehicles and trucks.

Obtaining preferential certificates from suppliers, verifying the accuracy and making sure the products are truly compliant is tedious work. Additionally, the non-availability of preferential certificates or certificates issued with incorrect data can ultimately impact a company's financial tally sheet. Automating the FTA qualification process in a real-time manner provides for the ability to make accurate trade preference claims at the time of border crossing. Thus, eliminating the need to pay duties and recoup some of those duties through reconciliation later – creating much better cash flow and direct hard dollar savings.

Companies that deploy a global trade management platform, when combined with real-time global knowledge about trade regulations, can streamline the process of qualifying goods under FTAs. Among the benefits of deploying an FTA solution, companies can: automate and centralize the process for obtaining origin information from suppliers; qualify goods for multiple trade agreements with comprehensive BOM analysis; generate import documentation for customer entry; and annotate commercial invoices for exports.

Moving ahead

Even with protectionism on the rise, the real tide of global trade can't be turned by even a few leaders who see it as the enemy. Just look to Brexit. With, in theory, a year to go before the U.K.'s divorce from the EU is finalized, countries around the world are clamoring to be first in line to create new trade agreements with the U.K. While uncertainty remains around the future of NAFTA, it represents one of the largest regional trading blocs in the world, and a positive outcome of the renegotiations will only serve to benefit companies that take early advantage of its cost-savings opportunities.

Jumping into the FTA pool now might be seen as a significant effort, but when applied correctly, with the proper automated GTM solution to power the intricacies of qualification and compliance, global companies will be well positioned to enjoy the rewards that can add up to millions of dollars saved.

by Gary M. Barraco, director, global product marketing with Amber Road