

# EU-Canada Free Trade Agreement Goes Into Effect

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The much anticipated free trade agreement between the European Union and Canada going into effect this summer is a terrific opportunity for importers to take advantage of duty savings. The Comprehensive Economic and Trade Agreement (“CETA”) expands market access for the EU and Canada through comprehensive tariff elimination across all sectors of the economy.

Under CETA, Canada and the EU have committed to eliminate or reduce tariffs on goods imported from the other party, provided they qualify under the CETA rules of origin. **Tariffs on 98% of goods including apparel and footwear, industrial products, and fish and seafood and over 93% of food and agriculture goods will be eliminated immediately upon entry into force of the agreement.** Tariffs on the additional tariff lines will be eliminated gradually within seven years. The EU and Canada have both signed and ratified the agreement and we expect an announcement prior to July 1, 2017. At that time, tariff reductions/elimination will go into effect.

**How to qualify under the agreement?** A garment made partially of Chinese fabric, partially of EU fabric, cut in China and sewn in the EU will not qualify. A garment made partially of Chinese fabric, cut and sewn in the EU may qualify.

## **There are three ways to qualify under the agreement:**

**The product qualifies as an “originating” product.** Under this scenario, the product must be produced exclusively from originating materials from the EU and/or Canada. For example, products that are harvested in a member country such as fruits and grains or a garment made from EU fabric, which is cut and sewn in the EU.

**Import the product using quotas** on products with foreign components. CETA allows for the use of quotas on specific items and not all products have quotas. Companies should not plan their sourcing strategies around these quotas, but they can be useful if used strategically. Quotas allow the use of foreign components, but the product must be manufactured in either the EU or Canada. In the case of apparel, the garment must be both cut and sewn in a member country. If more than 80% has been used in a calendar year the origin quotas will be increased by 3% the following year.

**The product qualifies under the product specific rules of origin** if it contains partial foreign components. If the product has undergone sufficient production in the EU or Canada to qualify under the product specific rules, the product may come in duty free.

The rules of origin are complex and product specific. Companies should determine their high duty items and then review each product, origin of its components, and manufacturing steps to figure out if compliance with specific rules of origin are possible. Compliance may be possible within the current supply chain or it may be worthwhile to make sourcing changes to accommodate the rules. Of course, compliance also entails documentary and record keeping requirements. Putting controls in place should ensure a successful use of the free trade agreement.

Finally, there is also a benefit for Canadian sellers who import through the U.S. Merchandise may be manufactured in the EU and shipped through the U.S. to Canada and still qualify under the agreement if, while in the U.S., the merchandise may be unloaded and re-loaded, but remains under U.S. Customs control.

For companies which manufacture and sell in the EU and Canada, CETA is a great opportunity for customs duty savings. Now is the time to review the product specific rules, quota options and targeted supply chains for potential duty elimination.