



## **HOW TO USE EU FREE TRADE AGREEMENTS AND SAVE DUTY COSTS**

The EU has free trade agreements with approx. 70 countries outside the EU. Some of these countries are significant export and import markets for Danish companies, including Canada, Iceland, Japan, Mexico, Norway, Singapore, South Korea, Switzerland and Turkey ([list of EU trade agreements](#)). Moreover, EU free trade agreements with other important markets, such as Australia and New Zealand, are under way.

EU free trade agreements either completely abolish duties or significantly reduce duties on goods. However, a Danish company does not automatically avoid paying duties when the company exports goods to or imports goods from a country with which the EU has a free trade agreement. A few conditions have to be fulfilled in order to get the duty savings which the free trade agreements entail. Fulfilling these conditions will enable you to substantially reduce duty costs. It is important to remember that making use of EU free trade agreements cannot be left to the shipping company to handle.

The example below shows how much customs duties are levied on a pump exported by a Danish company if the company uses EU's free trade agreements with Mexico, South Korea or Switzerland, or not:

<b>EU AGREEMENTS WITH:</b>	<b>THE NORMAL DUTY RATE (MFN - MOST FAVOURED NATION):</b>	<b>EU FREE TRADE AGREEMENT DUTY RATE:</b>
Mexico	15%	0%
South Korea	8%	0%
Switzerland	16 CHF/ 100 kg	0 CHF (Swiss Franc)

### **CONDITIONS FOR USING EU FREE TRADE AGREEMENTS WITH COUNTRIES OUTSIDE THE EU**

The below-mentioned five conditions must all be met in order for the importing country to charge only the reduced customs duty rates according to an EU free trade agreement:

1. The goods must be included in the EU free trade agreement (with e.g. South Korea). Normally, almost all goods are included in the EU's more recent free trade agreements.
2. The goods must have origin in the EU or the partner country. This means that the main part of the goods must be produced either in the EU or in the country with which the EU has a free trade agreement (termed the partner country).
3. The goods must be accompanied by documentation on the origin.
4. The goods must be transported directly between the EU and the partner country. However, the goods can also be shipped in transit via a third country or in certain circumstances be stored in a third country under customs control.
5. In the customs import declaration it is important to request the local customs authorities to make use of the EU trade agreement.

## **REGARDING CONDITION 1: ARE THE GOODS INCLUDED IN THE FREE TRADE AGREEMENT?**

EU free trade agreements provide for the opportunity to export or import almost all goods duty-free or at lower duty rates. The exact duty rates vary from one agreement to another.

You can use the EU's "Market Access Database" to look up specific products and check if a product is included in a given EU free trade agreement, and find out what the reduced duty rate is: <http://madb.europa.eu/madb/indexPubli.htm>. In order to look up a product in the database, you need to know the product code. The product code (also termed HS code) is the same number that a company must use when filling in an export or import declaration.

If you do not know the product's HS code, you can use the online tariff tool eVita: <http://vita.skat.dk/vita.htm>. You can also contact the Danish Customs Agency (Toldstyrelsen) for assistance (see contact details at the end of this guide).

General information about the EU's individual free trade agreements can be found at the following website, where you simply type the name of the specific partner country with which the company trades: <http://ec.europa.eu/trade/policy/countries-and-regions/>

## **REGARDING CONDITION 2: DOES A PRODUCT HAVE ORIGIN IN THE EU OR IN THE PARTNER COUNTRY?**

There are basically two ways in which a product can fulfil the origin requirement:

1. The product is fully produced in the EU or in the partner country – e.g. meat from animals bred in the EU.  
or
2. The product is sufficiently processed in the EU or in the partner country. The relevant criteria can normally be found in the so-called process lists contained in an annex to the free trade agreement. In the annex, the HS codes are listed together with the criteria for a certain product to achieve origin status. You can contact the Danish Customs Agency for assistance in determining a product's origin status under a given EU free trade agreement.

In most cases, a product is sufficiently processed if it meets one or more of the following three criteria in the process lists in EU free trade agreements:

- The final product is processed so much that a different four-digit HS code is relevant after the processing.
- The final product lives up to a value added criterion. It does so if the value added to the product in the EU or in the partner country is higher than a set percentage rate of the final product's sale price – e.g. when at least 70 % of a jacket's value stems from processing in the EU. This also means that it is allowed to use a set percentage rate of raw materials and components from non-EU-countries. The percentage rates can be found in the process lists in the EU trade agreements.
- The final product lives up to certain technical criteria. It does so when the product meets the criteria for processing the materials that are used for producing the product.

It is also part of the whole picture that EU free trade agreements allow for cumulation. This means that a producer in Denmark can use a certain percentage of materials from the partner country as if they had origin in Denmark/EU.

## **REGARDING CONDITION 3: DOCUMENTATION OF ORIGIN IN THE EU OR THE PARTNER COUNTRY**

The exporter can always choose to have a proof of origin issued for the goods (a so-called EUR1 form), each time a goods shipment is exported, regardless the value of the goods shipment. In Denmark the exporter has to ask the Customs Authority to verify and stamp the proof of origin.

If the value of the goods shipment is less than 6,000 EUR, most EU free trade agreements allow for exporters themselves to issue a so-called invoice declaration. This means that the exporter simply adds a sentence on the invoice in which the exporter declares that the goods, unless otherwise clearly stated, have origin in Denmark/EU or in the partner country. Yet, the exporter has to be able to prove that this is correct, if asked to do so.

If a company exports goods shipments with a value above 6,000 EUR on a regular basis, it is recommended that the exporter files an application with the customs authorities to become a so-called approved exporter. In Denmark, you need to complete the Customs Agency form no. 19.055 which can be found [here](#). When a company has received status as approved exporter, the company is allowed to issue documentation of origin in the form of the above-mentioned invoice declaration, regardless of the value of the goods shipment and without involving the Customs Agency each time. Yet, the exported goods always have to live up to the origin demands. The exporter simply inserts the authorisation number received from the Customs Agency in the sentence about the product's origin in the invoice (the so-called invoice declaration). This way the customs authorities in the importing country know that the goods can be cleared according to the EU free trade agreement.

If a company wants to make use of EU's trade agreements with Canada, Japan, Vietnam and a number of developing countries which the EU gives favourable, so-called GSP trade conditions, the procedure to become an approved exporter is different. In these cases, the company must be registered in the EU's "Registered Exporter System" – called REX. The Customs Agency's form no. 13.043, which can be found at [here](#), should be mailed to [rex@toldst.dk](mailto:rex@toldst.dk). More info on the REX system can be found [here](#).

#### **REGARDING CONDITION 4: THE GOODS MUST BE TRANSPORTED DIRECTLY BETWEEN THE EU AND THE PARTNER COUNTRY**

The normal precondition is that goods must be shipped directly between the EU and the country with which the EU has entered a free trade agreement – e.g. in the form of a bill of lading.

If transshipment or storage en route is necessary, it should take place under customs control, for example in a free port. The authorities of the importing country can demand proof from the authorities of the transit country that certain requirements have been met. This is done in order to make sure that the goods have not been cleared through customs en route. In most cases, a so-called non-manipulation certificate is sufficient documentation. A non-manipulation certificate must normally contain the following information:

- A precise description of the goods
- Dates of the loading and unloading of the goods
- Names etc. of the used ships
- The circumstances under which the goods have been stored in the relevant transit country
- If these conditions are met, the authorities of the receiving country should only levy the reduced customs duties according to the preferences under the EU free trade agreement.

#### **REGARDING CONDITION 5: REQUEST TO MAKE USE OF THE EU TRADE AGREEMENT**

It is important to fill in the customs import declaration correctly in order to make sure that the goods are cleared through customs using the reduced preference customs duties according to the free trade agreement between the EU and the partner country.

#### **MORE INFORMATION**

This guide provides general information and does not take into consideration a number of exceptions and more detailed regulations.

For more detailed information, please make enquiries with the Danish Customs Agency (<https://www.toldst.dk/english/>) or the Ministry of Foreign Affairs ([customs regulations](#)), or check out the useful EU Commission Market Access Database ([madb](#)).

You can read the full description of the rules on customs duty preferences (i.e. reduced customs duty payment by using one of the EU's trade agreements) in section F.A.9.4.1 on preferential origin (Præferentiel Oprindelse) in the Danish Customs Agency's legal code of guidance, which you can find at <https://skat.dk/skat.aspx?oid=2229680> (in Danish only).

## **IF YOU HAVE QUESTIONS**

If you have questions on how to apply to become an approved exporter or regarding customs regulations in general, you are welcome to contact the Danish Customs Agency's customs guidance (Toldvejledningen) at telephone number +45 7222 1222 or log in at [www.skat.dk](http://www.skat.dk) using NemID and make written enquiries to the Customs Agency.

The Ministry of Foreign Affairs also offers help in answering questions about how a Danish company can use the EU's and other countries' free trade agreements. Contact: Technical guidance on exports (Eksport-teknisk vejledning) at [eksportteknik@um.dk](mailto:eksportteknik@um.dk), tel.no. +45 3392 1422.

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