

In this ongoing series on Free Trade Agreements, we take a look at how ASEAN member countries are coming together to boost intra-ASEAN trade and increase the region's attractiveness as a single market. We also speak to a Singapore-based company that has been utilising the agreements to strengthen its business.

All articles contributed by Ministry of Trade and Industry

Powering up Southeast Asia

ASEAN member countries are working towards smoother intra-ASEAN trade for a strong and competitive region.

The ASEAN Free Trade Area (AFTA) was initiated in 1992. Under the AFTA, tariffs among the ASEAN Member Countries are eliminated or reduced through the Common Effective Preferential Tariff (CEPT) Scheme.

The CEPT Scheme covers a whole gamut of products, ranging from manufactured to agricultural goods. About 99 per cent of the products in the CEPT Inclusion List of the ASEAN-6 members (comprising Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand) have been lowered to the 0-5 per cent tariff range. Of these items, more than 60 per cent are already duty-free. The list of products and their tariff reduction schedule is available at www.aseansec.org/17963.htm (Consolidated 2005 CEPT Package).

For ASEAN's newer members – Cambodia, Laos, Myanmar and Vietnam – about 88 per cent of the products traded in the region are being liberalised under the AFTA. Of these items, about 71 per cent have had their tariffs brought down to 0-5 per cent.

Under the AFTA Scheme, ASEAN will eliminate all tariffs in the Inclusion List by the year 2010 for the ASEAN-6 members and 2015 for Cambodia, Laos, Myanmar and Vietnam. With the AFTA, intra-

ASEAN trade will be enhanced, and will increase the attractiveness of Southeast Asia as a single market and an integrated production area of 500 million people.

Beyond tariff reductions, the focus of AFTA has also expanded to include a host of "AFTA plus" activities, which will help facilitate the ease of business activities. These include efforts to develop co-equal and alternative product-specific rules of origin, eliminate non-tariff barriers and quantitative restrictions, harmonise customs nomenclature, valuation and procedures, and develop common product certification standards.

ASEAN-China Trade in Goods Agreement

A key development within the ASEAN community is the conclusion of the ASEAN-China Trade in Goods Agreement, which was implemented on 20 July 2005, after two years of negotiations. Under this Agreement, the ASEAN-6 member countries and China will eliminate tariffs on 90 per cent of their products by 2010. The other ASEAN countries – Cambodia, Laos, Myanmar and Vietnam – have until 2015 to do so. The remaining 10 per cent will be reduced at a slower pace as they are deemed sensitive by the parties.

This Agreement comprises one of the first stages of the ASEAN-China Free



Trade Area (ACFTA). It follows from the Early Harvest Programme (EHP) which came into effect in January 2004 and covered trade of agricultural products in HS Chapters 1-8. The EHP has been fully implemented in January 2006.

The ACFTA is an initiative currently under negotiation among the 10 ASEAN countries and China. It is a comprehensive agreement which incorporates the liberalisation of trade in goods and services, investments and other elements of economic cooperation.

Upon its completion, the ACFTA will be the largest free trade area in the world with a market of 1.7 billion.

For the latest updates on Singapore's FTAs, please visit our FTA website at www.fta.gov.sg.

Getting to Know AFTA

The ASEAN Free Trade Area (AFTA) has helped lower intra-regional tariffs among the ASEAN Member Countries through the Common Effective Preferential Tariff (CEPT) Scheme. Find out more about the scheme.

What products are covered under the CEPT Scheme?

All manufactured products, including capital goods and agricultural products are covered under the CEPT Scheme. Only products in the General Exception List (GEL) are exempted from the CEPT Scheme. Products in the Temporary Exclusion List (TEL) are temporarily excluded from the CEPT Inclusion List due to national sensitivity, but will eventually be phased into the Inclusion List (IL).

The list of products and their tariff reduction schedule is available at www.aseansec.org/12025.htm (Consolidated 2005 CEPT Package).

What are sensitive and highly sensitive agricultural products?

Sensitive and highly sensitive agricultural products refer to unprocessed agricultural products. These products need not be the same for each Member Country. They will be phased into the CEPT Scheme by 2010 – these products will have an ending tariff rate of 0-5 per cent, and quantitative restrictions and non-tariff barriers will be eliminated by 2010.



What is the local content requirement for CEPT?

The CEPT Scheme has set a local content requirement of 40 per cent – a product is considered as originating from ASEAN Member Country if at least 40 per cent of its contents originate from any Member Country.

The 40 per cent local content requirement refers to both single country and cumulative ASEAN content.

There are also alternative substantial transformation rules for the following sectors:

- Process Criterion for Textiles and Textile Products
- Change in Chapter Rule for Wheat Flour
- Change of Tariff Sub-Heading for Wood-Based Products
- Change in Tariff Classification for Certain Aluminium and Articles thereof and Iron and Steel Products.

What is partial cumulation under ASEAN Cumulative Rules of Origin?

To make the CEPT Scheme more attractive, improvement has been made to the Rules of Origin. If your product cannot meet the 40 per cent content requirement or the alternative substantial transformation rules, you can consider using the partial cumulation rule. This applies if you are manufacturing an intermediate product/component for subsequent incorporation into a final product, provided the local/ASEAN content requirement of this intermediate product/component is not less than 20 per cent.

While CEPT concession will not be extended by the importing Member Country for this particular intermediate

good, the manufacturing cost of the intermediate goods can be cumulated towards the final production cost.

How can we avail of the tariff concession under the CEPT Scheme?

Certain conditions have to be met in order to enjoy the tariff preferences under the CEPT Scheme:

- i) the product has to be in the CEPT Inclusion List of both the importing and exporting countries and must have a CEPT tariffs of 20 per cent and below
- ii) the product has met the local content requirement of 40 per cent or alternative substantial transformation rules

Are import tariffs the only duties charged by the Customs Department?

No, in most countries, there are additional domestic taxes such as sales tax, value added taxes or luxury taxes. These are domestic taxes which are not discriminatory in nature. Their removals are not covered by the CEPT Scheme.

What documents are required?

The exporter should obtain a Certificate of Origin Form D from Singapore Customs, which is the issuing authority, for every shipment. The Form D certifies that the product being exported complies with the content requirement.

In addition, Singapore Customs is able to issue a Back-to-Back Form D for shipments that originate from an ASEAN country and are then exported through Singapore to another ASEAN country. The products must meet the CEPT rules of origin and must be imported from the origin ASEAN country with a CEPT Form D.

Gaining Through AFTA

Kleen-Pak has experienced the benefits of using FTAs in their business and the company has not looked back since.

Innovation is one of the guiding principles of Kleen-Pak Products Pte Ltd. The company, which started out by trading in disposable wet wipes just a short two years ago, has now branched out into manufacturing not only their own products but also premium quality labels and exporting them to markets in the region.

Managing Director Tan Hock Kiam explained that Kleen-Pak expanded its operations to include manufacturing only last year. And not only have they expanded their scope of operations, they have also expanded their range of products beyond traditional baby wipes to include innovative wipe products for different applications such as home care, baby care, personal care, beauty care and pet care.

Not only are Kleen-Pak's products distributed to the domestic market, the



company is also casting an interested eye on the markets in the region. In just a few short months from the start of their manufacturing operations, Kleen-Pak started exporting disposable wet wipes for personal care to the Philippines. Apart from the Philippines, Kleen-Pak has also begun to break into the Vietnamese, Malaysian, and Indonesian markets.

Exporting to some of these ASEAN markets has proven to be a rewarding

experience for Kleen-Pak, particularly through using the preferential rates offered under the ASEAN Free-Trade Area (AFTA). For instance, by leveraging on the AFTA, Kleen-Pak saved its importers in the Philippines tariff duties of 10 per cent.

Mr Tan added that FTAs are very useful for Kleen-Pak because they have resulted in savings for their business partners. In fact, they had learnt about AFTA through one of their clients. The FTA benefits have helped them to compete on a more level playing field with bigger and more established foreign competitors, enabling them to gain new footholds in overseas markets.

Kleen-Pak is constantly on the lookout for partners to expand their business and the company is planning to tap into similar competitive advantages for its exports to other ASEAN markets and even as far away as India.

FTAs Made Simple

Held in May this year, the FTA Certificate Programme was an inaugural "train-the-trainers" programme spearheaded by International Enterprise (IE) Singapore's team of FTA consultants, former negotiators like Ms Ng Kim Neo, Ms Margaret Liang, Mr Kelvin Sum, as well as Indian market expert Ms Leena Pinsler.

Singapore's FTAs holds many advantages but many companies do not know enough to exploit their full advantages. The legal text surrounding FTAs can prove to be daunting, resulting in a knowledge gap among the business community. The programme aims to remedy that gap by educating our network of partners, who in turn will help create awareness, understanding and the practical application

of FTA concepts and tools among the business community in Singapore.

More than 20 participants attended the first programme which featured engaging presentations and interactive group discussions. Besides demystifying FTA terms like Rules of Origin (ROO), Value Add (VA) rule and Mutual Recognition Agreements (MRAs), the programme also informed participants on the FTA documentary compliance process. Participants also learned about investment and government procurement opportunities. The FTA Certificate Programme was developed and certified by IE Singapore, with support from the Ministry of Trade and Industry (MTI), Singapore Customs and Intellectual Property Office of Singapore



(IPOS). Together with event organiser FP Consultants, various professional and industry associations such as ASME, ICPAS and SBF, among others, also pledged their support. For more information and future programmes, please email epd@iesingapore.gov.sg.

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