

# Japan Business Services

JSEPA

2009



## Japan-Switzerland Economic Partnership Agreement (JSEPA) Case Studies

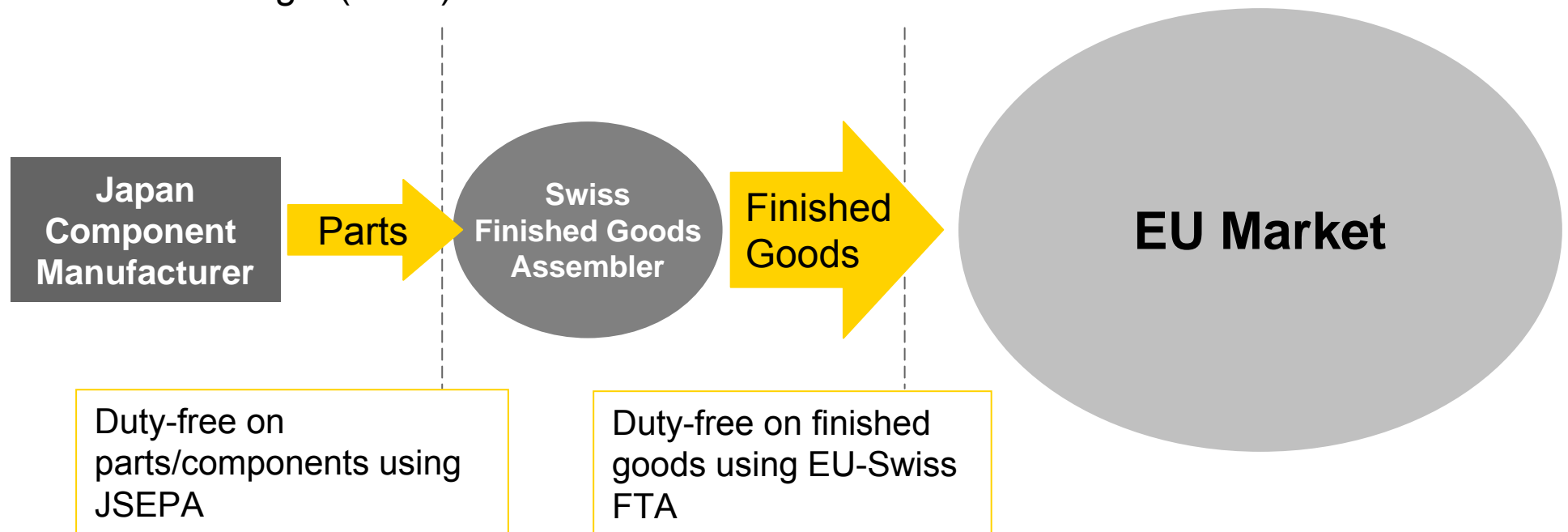
# Japan-Swiss Economic Partnership Agreement (JSEPA)

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- ▶ Signed on 19 February 2009
- ▶ Entered into force 1 September 2009
- ▶ Eliminates duty on 99% of items traded between the two countries within 10 years.
  - ▶ Switzerland duty on all industrial goods to be eliminated from the date of enforcement.
  - ▶ Japan duty on almost all industrial goods to be eliminated from the date of enforcement.
- ▶ Conditions
  - ▶ General Rules of Origin (ROO)
    - ▶ 40% Originating Value, or
    - ▶ Change in Tariff Heading
    - ▶ Product Specific Rules
  - ▶ Direct shipment
    - ▶ Must be shipped directly to the other EPA country
  - ▶ Certification
    - ▶ Introduction of Self-certification procedure

# Using JSEPA as a Gateway into the EU

- ▶ Switzerland has an FTA with the EU, allowing duty-free access of Swiss produced industrial goods into the EU.
  - ▶ Rules of Origin (ROO) must be met.



- ▶ For certain industries, it may be more economical to assemble in Switzerland than in the EU due to no duties on materials from Japan.

# Potential Beneficiaries

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- ▶ Companies currently exporting high duty items in the EU.
- ▶ Companies contemplating local manufacturing to avoid high duties, but have to use components from Japan that are still dutiable in the EU.
- ▶ Companies facing significant 'landed price' price challenges from competitors in the USA, China, Korea, GSP beneficiaries, etc.
- ▶ Companies whose customers are demanding EU Local Content.
- ▶ Examples of potential products:
  - ▶ Into the EU:  
Consumer Electronics, Nutritionals/Well-being, Automotive components
  - ▶ Into Japan:  
Luxury branded goods

# Example: Camcorder (HS852580)

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- ▶ EU Rate for Camcorder (HS852580)
  - ▶ Standard MFN rate (incl. Japan): 4.9% (Camcorders with Video input are 12.5%)
  - ▶ From Switzerland: 0%
- ▶ EU rate for certain Camcorder parts (HS8529.90)
  - ▶ From Japan: 3%
- ▶ Swiss Rate for certain Camcorder parts (HS8529.90)
  - ▶ Standard MFN rate: 66CHF/100 kg
  - ▶ From Japan: Free
- ▶ EU-Swiss Rules Of Origin (ROO) for Camcorders
  - ▶ 60% EU/Swiss Added Value and
  - ▶ 50/50 originating/non-originating parts ratio (EU originating parts count towards originating parts)
- ▶ JSEPA ROO for certain Camcorder parts (e.g. HS8529.90)
  - ▶ 40% Japan/Swiss Added Value or
  - ▶ Change in Tariff Heading (i.e. 4 digit level)

# Case 1: Base Case

## Japan Finished Goods to EU Market: No FTA/EPA usage

- ▶ Camcorder assembly in Japan with Japanese components
- ▶ Camcorder IP held in Japan
- ▶ Normal duty applies when entering the EU



Sales	200	Customs value	200
COGS*	-160	Customs @ 4.9%	9.8
Gross Income	40		
SG&A**	-30		
Net Income	10		
Tax @ 42%	4.2		

### Supply Chain Tax Burden

Japan Corporate Tax	4.2
EU Customs Duty	9.8
Total Burden	14.0

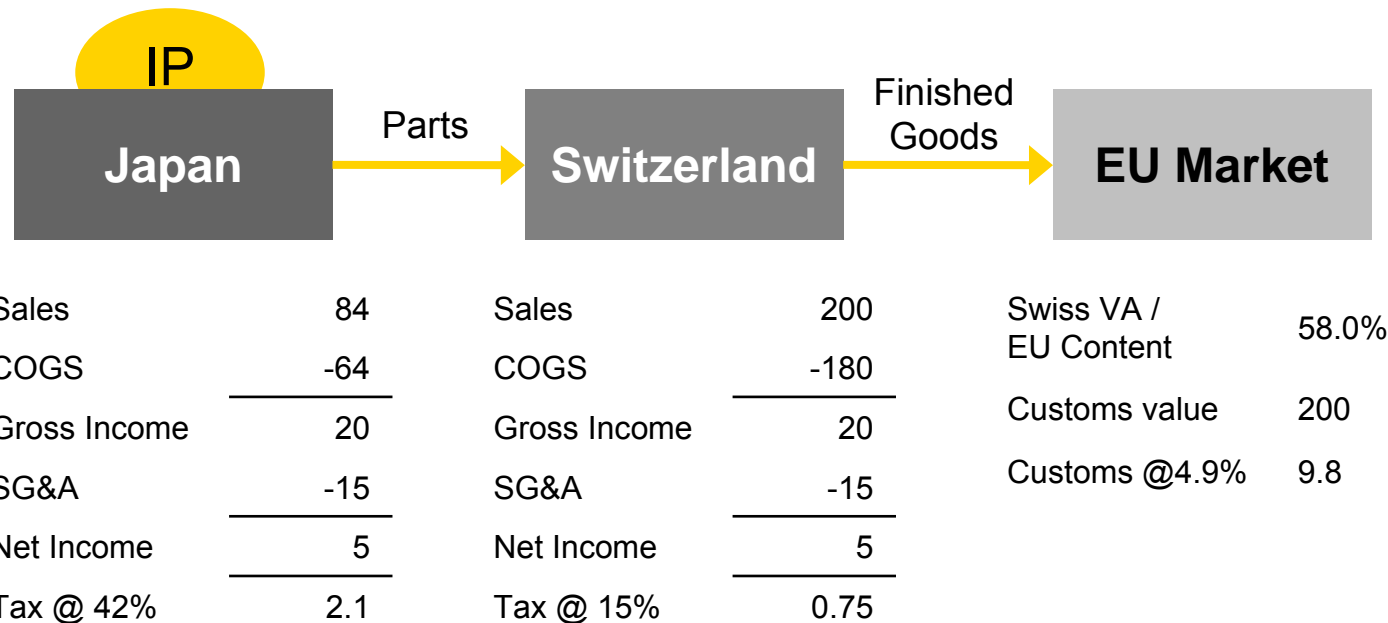
COGS\* : Cost of Goods Sold

SG&A\*\* : Selling, General and Administrative expenses

# Case 2: Operational Shift to Switzerland

## Limited Operational shift and Limited EU sourcing

- ▶ Shift assembly to Switzerland
- ▶ But with limited operational shift to Switzerland and limited EU Sourcing, the finished good does not qualify for EU-Swiss FTA
- ▶ Japan Swiss EPA applies: No Swiss duty on parts
- ▶ Need to consider Japanese CFC implications



### Supply Chain Tax Burden

Japan Corporate Tax	2.1
Swiss Corporate Tax	0.75
Swiss Customs duty	0.0
EU Customs duty	9.8
<b>Total burden</b>	<b>12.65</b>

**9.64% in Cost Saving**

# Case 3: Customs and Tax Effective Supply Chain Shift of Manufacturing Functions and IP Ownership to Switzerland

- ▶ Increase Swiss added value by shifting IP to Switzerland
- ▶ With IP value add (i.e. 4) and EU sourcing, finished good qualifies for EU-Swiss FTA
- ▶ Japan Swiss EPA also applies: no Swiss duty
- ▶ Need to consider IP exit charges, tax consequences of IP in Switzerland and Japanese CFC implications



Sales	80
COGS	-64
Gross Margin	16
SG&A	-15
Net Income	1
Tax @ 42%	0.42

Sales	200
COGS	-176
Gross Income	24
SG&A	-15
Net Income	9
Tax @ 15%	1.35

Swiss VA / EU Content	60.0%
Customs value	200
Customs @ 0%	0

## Supply Chain Tax Burden

Japan Corporate Tax	0.42
Swiss Corporate Tax	1.35
Swiss Customs Duty	0.0
EU Customs Duty	0.0
<b>Total Burden</b>	<b>1.77</b>

**87.36% in Cost Savings**

# Summary of the Case Studies

- ▶ For certain goods, companies may enjoy customs duty and corporate tax savings for their sales into the EU by shifting operations to Switzerland.

	Basic Case	Operational Shift	Operational & IP Shift
Total Customs Duty Cost	9.8	9.8	0.0
Total Corp. Tax Cost	4.2	2.85	1.77
Total Tax Burden	14	12.65	1.77

Maximum savings! — — —

# Other examples:

## Multivitamin/Mineral Supplements (HS210690)

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- ▶ EU Rate for Multivitamin/minerals (HS210690)
  - ▶ Standard MFN rate (i.e. from Japan): 9%~12.8%
  - ▶ From Switzerland using EU-Swiss FTA: 0%
- ▶ EU rate for certain ingredients e.g. Calcium Citrate (HS291815)
  - ▶ Standard MFN rate (i.e. from Japan): 6.5%
- ▶ Swiss Rate for certain ingredients e.g. Calcium Citrate (HS291815)
  - ▶ Standard MFN rate: 2.5 CHF/100 kg
  - ▶ From Japan: Free
- ▶ EU-Swiss ROO for Multivitamin/minerals
  - ▶ Change in Tariff Heading (4 digit level) + non-origin sugar below 30%.
- ▶ JSEPA ROO for certain ingredients e.g. Calcium Citrate (HS291815)
  - ▶ Change in Chapter except from Ch17 or CH23

# Examples of Exploiting JSEPA when importing into Japan

## Import of Leather Handbags (HS420221) from Switzerland

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- ▶ Japan Rates for Leather bags (HS420221)
  - ▶ Standard MFN rate (e.g. from Italy): 8%~14%
  - ▶ From Switzerland using EPA: Duty reduction in 11 equal step from the date into force: 7.3% ~12.7% (2009)
- ▶ Swiss Rates for Patent Leather (HS4114)
  - ▶ Standard MFN rate: 22CFH/100kg
  - ▶ From EU using EU-Swiss FTA: Free
- ▶ JSEPA ROO for leather handbags(CH42)
  - ▶ Change in Chapter (i.e. from Ch41 to Ch42)
- ▶ EU-Swiss ROO for patent leather(HS4114)
  - ▶ Manufacture from heading 4104 to 4106, 4107, 4112 or 4113 provided that their total value does not exceed 50% of the ex-works price of the product
- ▶ By manufacturing in Switzerland using EU Patent leather and shifting IP to Switzerland, savings in customs duty and corporate tax may be achieved.

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# Conclusion

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- ▶ If currently importing dutiable items into the EU and contemplating shifting manufacturing to the local market, it is worth evaluating the benefit of shifting the operation to Switzerland.
- ▶ Switzerland can offer a unique tax angle in reducing cost of goods sold into the EU.

# Contact

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## Background

- ▶ Yoichi brings over 11 years of experience in managing global customs compliance at a leading consumer electronics company where he often led his team in providing practical, results-oriented solutions to business units and overseas affiliated companies on various customs compliance and planning issues.
- ▶ Yoichi also has extensive experience in dispute resolution with Asian customs authorities on valuation, classification and origin related issues.
- ▶ B.A. Law from Keio University, Japan

## Skills

- ▶ Customs valuation planning
- ▶ Customs classification planning
- ▶ Free Trade Agreements (FTA) advisory
- ▶ Customs audit management
- ▶ Internal customs compliance reviews
- ▶ Export control compliance

## Experience

- ▶ Yoichi has extensive experience in advising multinational companies in both customs planning and compliance matter in Asia. Some of his key experiences include the following:
  - ▶ Developed outbound customs valuation planning strategies for a client in the auto components sectors.
  - ▶ Assisted a client in the textile industry with inbound customs valuation planning strategy.
  - ▶ Directly worked on designing a supply chain strategy around Free Trade Agreements for a consumer electronics company.
  - ▶ Directly worked on customs classification planning projects for a consumer electronics company.
  - ▶ Numerous experience in assisting clients in various sectors with regards to inbound TЕСM projects.
  - ▶ Extensive experience in assisting clients in various sectors in preparing and managing customs audits, which often includes conducting of internal compliance reviews of clients' import/export operations.
  - ▶ Assisted a client in the IT sector and its customs broker in conducting exportation of goods subject to export control regulations.

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- ▶ Law degree; Attorney-at-law; Swiss Certified Tax Advisor; frequent speaker at tax seminars and conferences; author of various tax publications mainly in the field of indirect tax; language: English



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- ▶ Diploma in International Tax Law and License for Executive Search
- ▶ Japanese, English, German
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