THREAT ASSESSMENT: RULES of ORIGIN

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Hotfoot to Vietnam

The European Commission has been investigating a possible origin fraud concerning Chinese origin footwear allegedly being routed through Vietnam. The investigation is some way from being completed but early indications are that there is substantial evidence of submarining.

Hotfoot to Vietnam

The alarm was raised when the Commission noticed a marked drop in import levels of footwear from China and a corresponding increase in imports of footwear from Vietnam.

Hotfoot to Vietnam

Vietnamese origin footwear enjoys several trade advantages over footwear originating in Mainland China, especially since GSP preference was removed from Chinese origin footwear on 1 January 1998, and there would be significant incentives for fraudulent traders.

Footwear of Chapter 64 is subject to full duty rates ranging from 3.3 per cent to 17.6 per cent in the EU. Many high-margin sports shoes like trainers or tennis shoes, which can retail in the EU for more than ECU75 (HK$635) per pair, are <u>dutiable at the high 17.6 per cent rate.</u>

All footwear manufactured in Vietnam which obtains preferential originating status there is eligible for the <u>GSP preferential rate of 70 per cent of the full duty rate</u> on importation into the EU.

<u>The 17.6 per cent duty rate above would therefore reduce to 12.3 per cent.</u> [1]

Business Alert - EU

At the beginning of this year, GSP was withdrawn entirely from footwear originating in Mainland China, Indonesia, Thailand and Brazil under the country/product graduation provisions and

exporters of goods from those countries now face a competitive disadvantage relative to Vietnamese origin footwear equal to 5.3 per cent of the value of the goods. **[1]**

In addition, certain footwear with textile uppers from Mainland China and Indonesia became subject from 1 November 1997 to definitive anti-dumping duty at rates of 49.2 per cent and up to 14.1 per cent, respectively, and definitive anti-dumping duty on certain footwear with leather or synthetic uppers is likely to be introduced on footwear originating in Mainland China, Indonesia and Thailand at the end of February.[2]

Last, but by no means least,

footwear of CN headings ex 6402 99, 6403 51, 6403 59, ex 6403 91, ex 6403 99, ex 6404 11 and 640419 10 from Mainland China is subject to quantitative import restrictions [3]

under the EU's non-textile quota arrangements.

Fraud is therefore driven by three different incentives to route Chinese footwear through Vietnam and claim Vietnamese origin. Fraudulent exporters of footwear from Thailand and Indonesia would also stand to gain by doing this, although as far as we know, the Commission is only investigating alleged submarining of Chinese origin footwear. This does not rule out the possibility that Indonesia or Thailand could be investigated in the future if there is evidence of submarining from there too.

Incentives to route footwear from Mainland China through Vietnam and claim Vietnamese origin.

Avoidance of :

[1] High non-preferential duty rate of 17.6%

[2] Anti-Dumping duty rate of 42.9% (China)/14.9% Indonesia

[3] Quantitative import restrictions on footwear in certain Tariff Headings

CANE SUGAR TRUST CO. LTD

INFORMATION

(Copied from and issued by the Sugar Info Centre, London)

Sugar Frauds

Warning by International Chamber of Commerce

On 25th July 1991, a Bulgarian buyer paid US$3.8 million for 13,100 tonnes of Brazilian sugar by letter of credit. The payment was released by international banks on the basis of the usual documents which proved that the sugar was loaded on 17th July in the port of Santos on the m.v. Giovanna bound for Varna, Bulgaria.

Neither the ship nor the sugar existed and the criminals have never been brought to justice.

In August 1992 a Paris bank released US$2.89 million under a letter of credit on the basis of documents stating that 10,000 tonnes of white refined sugar had been loaded on the m.v. Vladimir Ilyich in Panama, bound for Kalingrad, Russia.

The documents were forgeries and the money has never been recovered.

SUGAR FRAUDS: HOW TO GET YOURSELF CAUGHT

(A warning from Cane Sugar Trust Co Ltd)

Most cases of fraud, not only in the sugar business, are only successful because the buyer allows it to happen. Often this comes down to pure greed on the part of the buyer. Fraudsters are always on the look-out for the buyers who think they are the smartest, because they are the ones most likely to be attracted to a 'bargain offer', by words like 'unbelievable but true', or 'cancelled order, ship on the high seas'.

If you want to join the ranks of the conned, then:

1. LOOK FOR THE CHEAPEST PRICE

2. PAY BY 'STANDBY LETTER OF CREDIT'

3. PAY BY "PRIME BANK GUARANTEE"

4. ISSUE A LETTER OF CREDIT BEFORE THE PERFORMANCE BOND IS OPEN

5. DON'T BOTHER TO ASK YOUR BANK TO GET PROOF OF PRODUCT FROM THE SELLER'S BANK.

6. DON'T BOTHER MEETING THE SELLER

7. DON'T SHOW YOUR LAWYER OR ATTORNEY THE CONTRACT.

8. DON'T ASK YOUR BANK FOR ADVICE.