

Tariff preferences: systematically exploiting and securing duty benefits

Tariff preferences are customs concessions granted under preferential agreements between states or groups of states that allow the import or export of goods at reduced or zero duty rates. For industrial buyers and suppliers they are a direct cost-saving lever and at the same time a compliance topic with liability risks. The requirement is that the goods meet the rules of origin of the relevant agreement and that this is properly evidenced. Anyone who integrates preferences systematically into supplier contracts and processes reduces landed costs and avoids costly retroactive duty assessments.

Key facts

- Tariff preferences reduce the duty rate to zero or a reduced rate, provided the goods meet the rules of origin of the agreement.
- The basis is trade agreements such as the EU's free trade and association agreements with third countries.
- Proof is typically provided via preference documents such as EUR.1 or supplier's declarations for goods of EU origin.
- Without sufficient verification of originating status, the exporter may be liable for retroactive customs assessments.
- A systematic preference check can be integrated into Source-to-Contract processes and supplier master data.
- In practice, companies often unlock one to several per cent of goods costs as savings potential – depending on product and target market.

Definition: tariff preferences

Tariff preferences are contractually agreed concessions on the duty rate for goods that meet defined origin criteria. They are based on agreements such as free trade agreements (FTAs), association or framework agreements of the EU with individual states or regions. The preference is granted only where the preferential origin of the goods is evidenced and the rules on transport and trade with third countries have been observed.

Preferential and non-preferential origin

Preferential origin is purely a customs category and is not the same as non-preferential origin, e.g. for origin markings or trade statistics. Preferential rules determine from when goods count as originating products: wholly obtained or sufficiently processed or worked. The specific criteria differ considerably between agreements and tariff headings.

Why the term matters for procurement

In practice, duty rates frequently range from zero to over 20 per cent depending on the goods and target

market. Preferences therefore have a direct impact on landed costs and on the competitiveness of sourcing locations. Buyers should treat preference eligibility as a criterion alongside price, lead time and quality assurance agreements – comparable to a request for quotation in which the total cost view also counts.

Legal and agreement-specific foundations

The EU has a dense network of preferential agreements, including agreements with countries such as Switzerland, Norway, Japan, South Korea, Canada and Vietnam as well as association agreements. Each agreement contains its own rules of origin, forms of proof and procedural rules. In addition, uniform supplementary provisions apply, for example on the non-manipulation certificate for direct transport.

Rules of origin in detail

Typical criteria are wholly obtaining in the agreement territory, a value limit for non-originating materials (often as a percentage of the ex-works price), a tariff-shift processing operation or specific processing operations for certain products. Cumulation allows inputs from partner countries to be treated as if they were the manufacturer's own materials while still acquiring preference. Which criterion applies depends on the tariff heading (HS code).

Types of proof: EUR.1, invoice declaration, supplier's declaration

In practice, proof is provided by the EUR.1 or EUR-MED accompanying document, the origin declaration on the invoice (for approved exporters or consignments below a value threshold – which differs by agreement, frequently around EUR 6,000) and the supplier's declaration for goods of EU origin issued by a supplier to its customer. A Registered Exporter status with electronic EXIM data can, in certain agreements, replace the declaration on the invoice. The correct form follows from the relevant agreement and the customs law of the importing country.

Retroactive reimbursement and binding rulings

Where preferential duty was initially paid, many agreements allow retrospective reimbursement (retroactive preference) within a time limit of typically one to two years. Where there is uncertainty about classification or originating status, binding rulings can be requested from the customs authority; they create planning certainty but tie up resources and require a carefully prepared application.

Methods and approach: systematically unlocking preferences

Preference management is not a one-off issue but a process connecting procurement, sales, logistics and customs/compliance. A sensible approach follows the procurement chain: classification, origin verification, obtaining proofs and ongoing monitoring. Standardising these steps avoids assessments and speeds up customs clearance.

Step 1: goods classification and agreement matching

The starting point is a clean commodity code (HS/Combined Nomenclature code) for every item position in the article master. On this basis, the company automatically matches which target markets have preferential agreements and which origin criteria apply. Such a matching process can be embedded in e-sourcing and master data processes of materials planning so that preference eligibility becomes visible as early as source selection.

Step 2: origin verification and obtaining supplier's declarations

For inbound goods, the buyer checks whether suppliers provide valid long-term supplier's declarations – ideally with a period of validity, validity until revoked and documented bill-of-materials assessment. For critical parts, an inspection instruction is recommended under which supplier's declarations are verified on a sample or complete basis against bills of materials, routings and values. Supplier contracts should include an obligation to issue and update supplier's declarations.

Step 3: assessing own production and processing

For in-house production or contract manufacturing, the company determines from bills of materials and production orders whether the processing criteria are met. Intra-company movements and inward processing have their own preferential provisions requiring separate assessment. The documentation of the calculation must be presentable to the customs authority on request.

Step 4: monitoring, change management, training

Rules of origin, agreements and supply chain data change. Change-sensitive monitoring – for example for new suppliers, alternative sources or product changes – is therefore an essential component. Briefly trained contacts in procurement, sales and freight forwarding prevent proofs from being submitted late or incorrectly.

Key KPIs and benefit potential of tariff preferences

Preference management can be measured. Meaningful KPIs cover coverage, proof quality and economic benefit. They belong on the agenda of procurement controlling and should ideally be evaluated cumulatively with customs and logistics costs.

Preference coverage and saving rate

Preference coverage indicates what share of the preference-eligible goods volume is actually cleared at preferential rates. In practice, mature organisations show coverage rates of well over 80 per cent, while less systematic organisations often exploit only a fraction. The saving rate sets realised customs concessions in relation to the goods value.

Proof quality and process metrics

The proof rate measures how many consignments were handled with complete and timely preference proof. The error rate for supplier's declarations and the lead time for obtaining proofs show process quality. Also relevant: duration of customs clearance, the difference between promised and actually used preferences, and assessment amounts from audits.

Total cost of ownership view in procurement

Preference benefits belong in the total cost evaluation of suppliers – analogous to payment terms, freight costs and tax rates. In bid evaluations, for example via bid scoring stages, the buyer can treat preference eligibility as a scoreable criterion alongside price and quality. This makes location decisions transparently based on landed costs.

Risks and controls: compliance and liability

Preferences wrongly or unjustifiably claimed lead to retroactive customs assessments, interest and, in

practice, frequently also to fines. Even inadvertently issued but incorrect supplier's declarations can burden the issuer and its customers. Risk management and controls are therefore an integral part of the process.

Typical risk areas

Common sources of error: outdated or blanket-issued supplier's declarations, unverified inputs without cumulation, incorrect HS classification, missing non-manipulation certificates for transit via third countries, or failure to register as an approved exporter. Even with supplier changes or during ramp-down management of legacy sources, ongoing proofs must remain secured until no preferential exports are made.

Controls and internal safeguards

Effective controls include: periodic sampling of supplier's declarations against bills of materials, contractual clauses on proof obligations and updating, defined release processes for export declarations with preference, and a documented audit trail. Prohibitions on assignment or contractual penalties govern what happens if a supplier culpably fails to provide proofs. Internally, there should be a clear allocation of responsibility – typically customs/trade compliance – with defined interfaces to procurement.

Relationship to sustainability and supply chain topics

Origin data is increasingly also used for sustainability requirements, for example for CO2 accounting along the supply chain (Supply Chain Carbon Footprint, SCF) or for due diligence obligations. Anyone who already maintains origin and production data systematically can leverage synergies for reporting obligations and for assessing reputational risk in procurement. A clean data basis pays off twice here.

Current developments and outlook

Preference law is dynamic: new agreements, changed rules of origin and digitalised proof procedures continuously change practice. Buyers and suppliers should therefore design their processes so that changes can be systematically implemented.

Digitalisation of proofs

Several agreements now provide for electronic proofs and registrations, such as the registered exporter under the REX system or digital origin declarations. Self-assessment by the exporter is increasing, which raises documentation obligations. Cloud-based customs and trade compliance systems automate classification, agreement matching and proof management – without this glossary recommending specific vendors.

Geopolitics, sanctions and supply chain diversification

Trade conflicts, sanctions and anti-dumping measures shift sourcing locations and change preference relevance. Diversification and nearshoring increase the number of relevant agreements per article. Procurement organisations should therefore consider preference eligibility in the ABC-XYZ analysis of critical parts in order to systematically evaluate sources with favourable agreement positions for strategic parts.

Requirements for organisation and staff

Preference competence is becoming a standard profile for international buyers and logistics specialists.

In Source-to-Contract processes, a short preference eligibility checklist should already be embedded in the request for quotation. Roles and proof responsibility must also be clearly defined for 3PL providers so that duty benefits are not lost at interfaces.

Typical metrics

Preference coverage: > 85 %

Share of preference-eligible goods volume that is actually cleared at preferential rates

Proof rate: > 98 %

Share of consignments with complete, timely preference proof

Duty saving rate: 1–5 % of goods value

Typical order of magnitude in practice; strongly dependent on product and agreement

Error rate for supplier's declarations: < 2 %

Share of reviewed supplier's declarations with material defects

Practical example

A medium-sized machinery manufacturer imports components from South Korea and exports finished machines to Switzerland and Japan. Until now, the company used preferences only for direct customer deliveries to Switzerland; customs assessments following a review of two supplier's declarations revealed gaps. A structured preference management system was then established.

- Consolidated HS coding of all relevant articles and automated matching with the agreements of the destination countries
- Mandatory long-term supplier's declarations in new framework agreements, including an obligation to update when bills of materials change
- Sampling-based inspection instruction for verifying supplier's declarations against bills of materials and production data
- Binding 'preference eligibility' checklist in the request for quotation plus KPI reporting on preference coverage in procurement controlling

Conclusion

Tariff preferences are an often underestimated cost-saving lever and at the same time a compliance topic with genuine liability risk. The prerequisites for benefit are a clean HS classification, knowledge of the rules of origin of the relevant agreement and gap-free proofs. Buyers should systematically integrate preference eligibility into requests for quotation, supplier contracts and master data processes and manage implementation via KPIs such as coverage and proof quality. Those who do this consistently reduce landed costs sustainably and avoid assessments. A look at the individual case and, where appropriate, a binding ruling from the customs authority legally secures the decision.

Frequently asked questions

What are tariff preferences in simple terms?

Tariff preferences are agreed customs concessions for goods from specific countries or regions, usually at a duty rate of zero. The requirement is that the goods meet the rules of origin of the relevant agreement and that this is evidenced by proof such as an EUR.1 movement certificate or a supplier's

declaration. Without proper proof, the normal duty rate applies.

When do goods have preferential origin?

Goods have preferential origin if they were wholly obtained in the agreement territory or sufficiently processed or worked there. The rules of origin of the specific agreement are decisive, e.g. tariff shift, value thresholds or specific processing operations. Cumulation also allows inputs from partner countries to be treated as if they were the manufacturer's own materials.

What is the difference between an EUR.1 and a supplier's declaration?

The EUR.1 is a customs document created by the exporter when the goods are shipped and presented at import. A supplier's declaration, by contrast, is a declaration by a supplier confirming to its customer the EU originating status of an input, so that the customer can derive preferences from it. Both complement each other in the supply chain but do not replace one another.

What happens if tariff preferences are wrongly claimed?

If a preference is wrongly claimed, customs will demand the duties that were lost, in practice often retrospectively for several years, plus interest. Depending on the circumstances, fines may also be incurred. Careful origin checks, valid proofs and documentation are therefore essential; in case of doubt, a binding ruling should be obtained from customs.

How can procurement systematically exploit tariff preferences?

The buyer checks preference-relevant sources as early as the request for quotation and embeds proof obligations in contracts. Supplier's declarations are obtained in a standardised manner and verified against bills of materials. KPIs such as preference coverage and proof rate are integrated into procurement controlling, making the benefit measurable and manageable.

Does a tariff preference apply automatically to every commercial transaction?

No. Preferences apply only to trade between the agreement partners where the rules of origin are met, valid proof is available and the transport requirements are observed. Sanctions, exemptions and procedural requirements of the relevant agreement can also exclude the preference. A case-by-case review is therefore necessary.