Preferential and Non- Preferential Origin at Daimler – Benefits and Challenges

Daimler AG | Stuttgart
Corporate Customs and Export Control (FF/C)
## Key Facts FY 2019

**Daimler Group***

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>172.7 bn EUR</td>
</tr>
<tr>
<td>Net profit</td>
<td>2.7 bn EUR</td>
</tr>
<tr>
<td>EBIT</td>
<td>4.3 bn EUR</td>
</tr>
<tr>
<td>Income taxes</td>
<td>2.1 bn EUR</td>
</tr>
<tr>
<td>Research and development expenditure</td>
<td>9.7 bn EUR</td>
</tr>
<tr>
<td>Employees (December 31)</td>
<td>298,655</td>
</tr>
<tr>
<td>Sales locations</td>
<td>9,044</td>
</tr>
<tr>
<td>Production sites</td>
<td>69</td>
</tr>
<tr>
<td>Logistics locations</td>
<td>51</td>
</tr>
</tbody>
</table>

*including Daimler Mobility*
# Key Facts FY 2019

**Mercedes-Benz Cars & Vans**

<table>
<thead>
<tr>
<th></th>
<th>Mercedes-Benz Cars</th>
<th>Mercedes-Benz Vans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>93.8 bn EUR</td>
<td>14.8 bn EUR</td>
</tr>
<tr>
<td>EBIT</td>
<td>3.4 bn EUR</td>
<td>-3.1 bn EUR</td>
</tr>
<tr>
<td>Research and development expenditure</td>
<td>7.5 bn EUR</td>
<td>0.1 bn EUR</td>
</tr>
<tr>
<td>Employees (December 31)</td>
<td>152,048</td>
<td>21,346</td>
</tr>
<tr>
<td>Production sites</td>
<td>22</td>
<td>5</td>
</tr>
</tbody>
</table>
## Key Facts FY 2019

### Daimler Trucks & Busses

<table>
<thead>
<tr>
<th></th>
<th>Daimler Trucks</th>
<th>Daimler Busses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>40.2 bn EUR</td>
<td>4.7 bn EUR</td>
</tr>
<tr>
<td>EBIT</td>
<td>2.5 bn EUR</td>
<td>0.3 bn EUR</td>
</tr>
<tr>
<td>Research and development expenditure</td>
<td>1.5 bn EUR</td>
<td>0.02 bn EUR</td>
</tr>
<tr>
<td>Employees (December 31)</td>
<td>83,437</td>
<td>17,960</td>
</tr>
<tr>
<td>Production sites</td>
<td>28</td>
<td>14</td>
</tr>
</tbody>
</table>
1. Key Facts and Production Footprint

Daimler Production Footprint

EMEA
- Germany
- France
- Romania
- Austria
- Slovenia
- Hungary
- Finland
- Spain
- Portugal
- Turkey
- Russia
- South Africa
- Egypt (planned)

APAC
- China
- Japan
- India
- Indonesia
- Thailand
- Malaysia
- Vietnam

Central Logistics Warehouse

- Mercedes-Benz Cars
- Mercedes-Benz Vans
- Mercedes-Benz Trucks
- Mercedes-Benz Cars (CKD)
- Mercedes-Benz Trucks (CKD)
- Preferential and Non-Preferential Origin at Daimler – Benefits and Challenges
# Measures and Investments to benefit from FTAs

<table>
<thead>
<tr>
<th>Internal Measures</th>
<th>External Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Set-up of an <strong>internal organization</strong> with clear responsibilities as well as managing boards for decisions on conflicting interests</td>
<td>- <strong>Training of (key) suppliers</strong></td>
</tr>
<tr>
<td>- <strong>Training of employees</strong></td>
<td>- Close co-operation and active interaction with <strong>automotive associations during (re-)negotiations of FTAs</strong></td>
</tr>
<tr>
<td>- <strong>Implementation of IT-systems</strong> calculating the preferential origin/local content for each HTS code and FTA; adaption for new/amended FTAs</td>
<td>- <strong>Application of formal authorizations</strong> foreseen by the respective FTAs (e.g. Approved Exporter, REX) in order to benefit from facilitations</td>
</tr>
<tr>
<td>- Set-up of <strong>steering processes</strong> such as simulation of local content in different sourcing scenarios</td>
<td>- <strong>Full disclosure of processes</strong> related to preferential origin towards local customs authorities and open discussions regarding changes/ideas</td>
</tr>
<tr>
<td>- <strong>Close co-operation</strong> with relevant departments, such as <strong>External Affairs</strong> (Political developments and FTA Rules), <strong>Production Strategy</strong> (place of production, internal value-add), <strong>Procurement</strong> (origin of parts), <strong>Controlling</strong> (overall cost position) and <strong>Sales</strong> (destination of final products)</td>
<td>- Managing of <strong>customs audits</strong> on preferential origin</td>
</tr>
<tr>
<td>- <strong>Monitor changes in supply chains/production network</strong> in order to safeguard preferential origin</td>
<td></td>
</tr>
</tbody>
</table>

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**2. Preferential Origin – Benefits and Challenges**

**Preferential and Non-Preferential Origin at Daimler – Benefits and Challenges**

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Daimler AG
Former Status on Preferential Origin

- No significant changes to existing FTAs created a rather reliable FTA-environment
- General predictable trend only towards more FTAs between states and more globalization
- Focus on the evaluation of potential benefits of new FTAs or to seek for further benefits in case of accession of states to existing FTAs
- Known and solid product set-up (only internal combustion engine vehicles) and sourcing footprint (at least for main car/truck-components such as engine, transmission, axles) led to manageable challenges
- Renegotiations of FTAs with focus more on technical rather than political aspects
Growing Challenges with Preferential Origin

Recently, challenges in the field of preferential origin have grown significantly and become more diverse than in the past:

- Achieving preferential origin is increasingly challenging facing the complexity of constantly growing international cross-supply chains
- Increasing volatility in the FTA landscape due to political developments (e.g. Brexit, replacement of NAFTA by USMCA)
- New FTAs tend to require significantly increased local content (e.g. USMCA)
- The complexity of the rules of origin leads to the necessity of expertise which not every company can/wants to invest in (in Germany only 78% of exporting companies make use of FTAs), leading to a lack of preferential origin in the entire following supply chain
Growing Challenges with Preferential Origin II

- New **technologies and materials** significantly change the value drivers of products as well as the entire supply chain
- **Change** from vehicles with **internal combustion engines** and transmissions to **battery electric vehicles**
- **Expectation management of “FTA law givers”**: Rules of origin in EU FTAs on batteries for electric vehicles with a max. VNM of 30% is currently **impossible to achieve** by European producers but the **political pressure to focus on electric vehicles is high**
- Most valuable components are subject to other industries (e.g. chemical) and hence less predictable

- **Renegotiation periods for FTAs are (too) long**: No quick means to react to new/trending technologies

- High need of **internal alignment regarding investments on “FTA-Compliance”** (e.g. pref.-origin “friendly” sourcing)
Growing Challenges with Preferential Origin III

- Only some FTAs provide for additional options such as **full cumulation** or **plant/model based averaging**, raising the chances of fulfillment of the preferential origin.

- In some countries, **provisions on preferential origins are interpreted as a pre-requisite for other benefits** provided for by the FTA, e.g. mutual recognition of technical regulations on vehicles are only accepted where preferential origin is fulfilled, even though the FTA wording does not explicitly state such relationship.
Former Status on Non- Preferential Origin

- Other than the preferential origin, the indication of the non-preferential origin of goods was (and still is) a **standard requirement** for all international traders.

- Its **main area of application has always been anti-dumping** as well as export, especially export control.

- Only a **limited number of countries requires formal Certificates of Origin**, most countries accept statement on almost all commercial documents.

- Usually, the non-preferential origin can be determined by using **the rather simple (however well-proven and practical) method** of “last substantial and commercially justifiable transformation” in order to change respectively confer the non-preferential origin.
Growing Challenges with Non-Preferential Origin

Other than the preferential origin, the indication of the non-preferential origin is essential in international trade. The consequences of a lack of the non-preferential origin are more severe than the lack of preferential origin and thus have to be avoided.

- Recently, non-preferential origin has increasingly been used as a “weapon” in international trade disputes.

- Additional (punitive) duties have been imposed not only in direct trade-related conflicts between two parties but also due to involvements of a party in a political (non-trade-related) conflict between two other parties.

- Due to international cross-delivery supply chains, suppliers are often unable to provide ANY non-preferential origin, since they do not follow a clear physical segregation of batches.

- In some countries, documents proving the non-preferential origin (Certificates of Origin) are subject to manual, time consuming and highly bureaucratic processes.
4. Wish List

If we could make a wish.....

.....on Preferential Origin

- The renegotiation periods for FTAs should be shorter in order to allow for a quicker reaction on current economic and political demands

- (Re-)Negotiations of FTAs should always consider provisions of other existing FTAs and aim for more facilitations (e.g. full cumulation, averaging, no requirements for physical separation of goods with different origin but only separation of goods in the books of the producer etc.)

- Goal should be a stronger harmonization of rules of origin
If we could make a wish.....

.....on Non-Preferential Origin

- Non-preferential origin should **not be used as a “weapon” in trade disputes**
- Non-preferential origin should **not be used to force companies into investments**
- Non-preferential origin should **solely be used for direct trade-related measures** aiming at the protection of the respective economy (“back to the roots”)
- **Rules** for ascertaining the non-preferential origin should stay **practical and simple** fostering a more efficient determination
Questions?
Thank you for your kind attention