

Preference (SD-FT-PRE)



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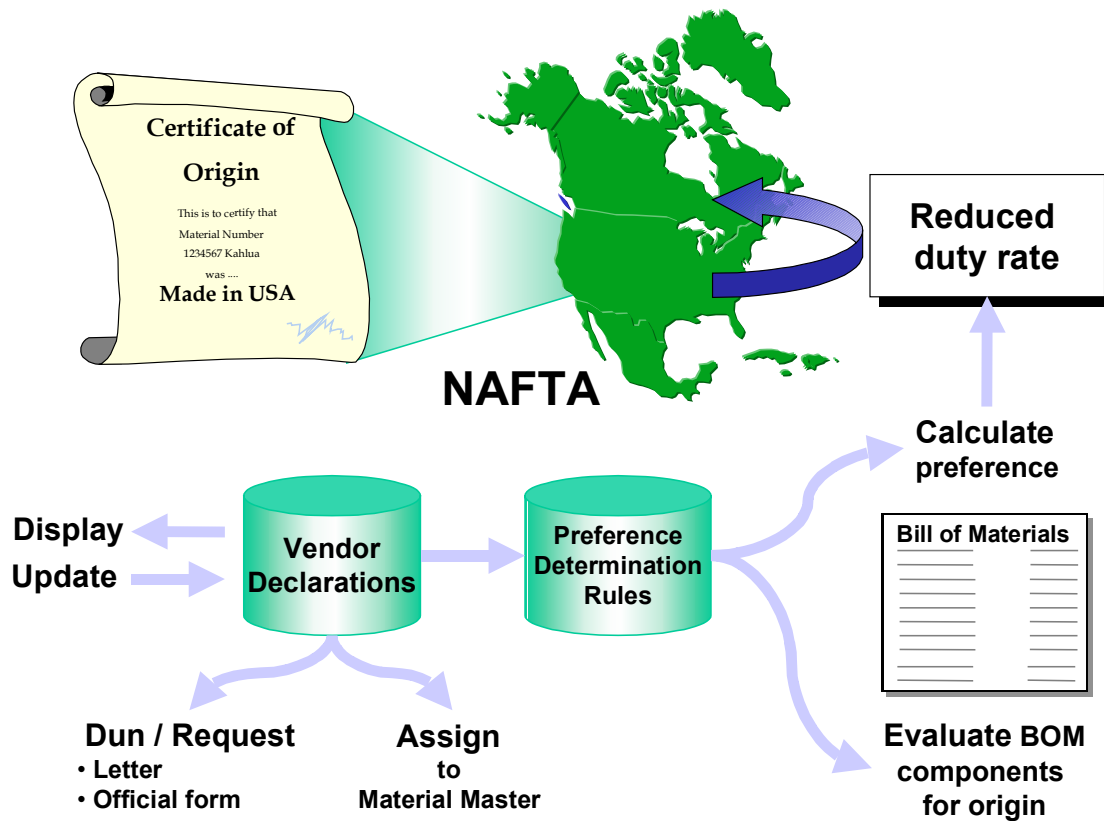
Icons

Icon	Meaning
	Caution
	Example
	Note
	Recommendation
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Preference (SD-FT-PRE)



Purpose

This component determines whether your products qualify as originating in the economic zone from which you are exporting or dispatching goods based on current regulations. If they are determined to be originating goods, they may qualify for preference and be duty-free or eligible for a reduced duty rate.



For example, your company is located in the United States and you export material XYZ to Canada. If material XYZ (or a part of it) originates in your country, it may qualify for preference when you ship it to customers in Canada. Therefore, in most cases, the duty rate for your customers will be reduced considerably.

In this component, the system stores the vendor declaration data in the vendor master record and in the purchasing info record. During preference calculation, FT explodes the bill of materials and stores the preference situation for each customs territory in the material master record.

See also:

[The Situation Within Your Own Country \[Ext.\]](#)

Implementation Considerations

Implement this component if you trade with countries who have bilateral agreements with your economic zone.

Features

- Requesting, dunning and management of vendor declarations required by the authorities to export goods at reduced duty rates
- Aggregation of vendor declarations in material master records
- Determination as to whether a material originates in your economic zone and, therefore, qualifies for preference
- Calculation and use of preference results in sales and distribution documents

See also:

[About Preference Handling \[Page 39\]](#)

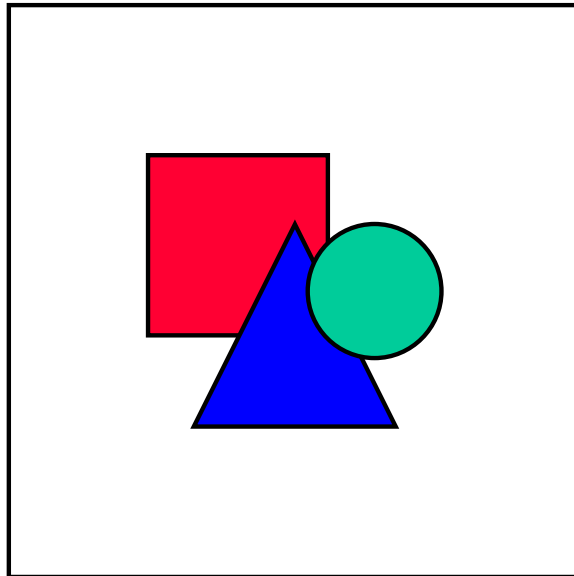
[Preference Processing Cockpit \[Page 9\]](#)

Return to [Foreign Trade / Customs \[Ext.\]](#) main topic.

Preference Process

Purpose

The steps below explain the process for determining whether a material qualifies for preference and how the preference result is used.



This sample scenario refers to documents required in the EU in steps 4 and 5, however, the process is basically the same for all situations involving preference determination.

Process Flow

1. You request or dun [vendor declarations \[Page 15\]](#) and maintain them.
The vendor declaration serves as information text and proof. It is important for everything that is directly or indirectly involved in the movement of preference-relevant goods between the EU and other countries. The vendor is obliged to issue a vendor declaration for this type of goods movement.
If there is no valid declaration, then it is requested or dunned within a specified number of tolerance days. When you receive updated declarations, you need to enter the new information in the appropriate master records.
2. The system aggregates the vendor declarations in the material master records.
To carry out preference determination, vendor declaration indicators from individual purchasing info records must be aggregated in the material master.
3. The system performs preference determination.
The system carries out preference determination for all components of a product based on data in the relevant material masters in the bill of materials. This process determines the origin of each component.
4. The system uses preference results in sales and distribution documents.

Preference Process

The results of preference determination can be evaluated in the material master, as well as during order processing and billing processing.

These results are important for order processing because the system does not determine the validity of a sales product for preference until the business transaction. It determines the product's validity for preference by comparing the *Ex Works price* with the preference condition record from condition type *PREF*.

If the comparative check during pricing leads to a positive result, then the system sets the preference indicator in the document at item level. This indicator allows you to print an [EUR.1 document \[Ext.\]](#) (goods movement certificate).

5. You print the EUR.1 document (goods movement certificate).

Goods movement certificates are proofs of preference validity. Within the EU, they are only necessary for goods movements involving states with which the EU has a free trade agreement, a preference agreement, or a cooperation agreement. These certificates also apply to states that are associated with the EU.

Consequently, you use layout set EUR.1 that is issued to the exporter by the relevant customs office. For goods movements involving developing countries, use the Form A certificate of origin. For goods movements involving EFTA member states, a declaration of origin in the commercial documents is sufficient for goods values up to ca. 11800 DM. A special certificate (A.TR.1) is required for Turkey, an EU-associated state.

For low-value goods movements involving EFTA and some East European states, you can use layout set EUR.2. This declaration of origin is issued and signed by the exporter.

The SAP sample goods movement certificate is the EUR.1.

See also

[Requesting and Dunning of Expiring Vendor Declarations \[Page 17\]](#)

[Aggregation of Vendor Declaration Indicators \[Page 21\]](#)

[Preference Determination \[Page 26\]](#)

[Use of Preference Results in SD Documents \[Page 38\]](#)

[Preference Data in Master Records \[Page 12\]](#)

Preference Processing Cockpit

Use

Foreign Trade's *Preference Processing Cockpit* provides you with quick, easy-to-use access to the most important functions in this area. The cockpit's initial screen can be configured to match the specific tasks of each individual user. These tasks allow you to determine whether or not your products qualify as originating according to the rules stipulated by the trade area from which you are exporting. If your goods qualify as originating, they could qualify for preference, thus increasing the marketability of your products for export.

To go to the *Preference Processing Cockpit* from the main SAP menu, choose *Logistics → Sales and distribution (or Materials management) → Foreign Trade / Customs → Preference → Cockpit - Preference Processing*.

See also:

[Preference Determination \[Page 26\]](#)

Prerequisites

Before utilizing the functions for *Preference Processing*, you need to set up the corresponding tables in Customizing. No new settings are necessary, however, if you are using these functions for the first time, choose *Sales and Distribution (or Materials Management → Purchasing) → Foreign Trade/Customs → Preference Processing* and make the appropriate settings in the associated menus.

Features

Preference processing is divided into logical steps that build on one another. These steps are included in the seven sections on the initial screen of the *Preference Processing Cockpit*.

Functions on the Initial Screen

Section	Function
Vendor declaration	Request, dun and create vendor declarations
Administration	Display, maintain and aggregate vendor declarations
Master data	Maintain foreign trade master data and aggregate long-term vendor declaration data in purchasing info records
Environment	Link to <i>Customizing</i> transactions
Calculation	Explode the BOM and calculate individual and collective preference eligibility
Archiving	Perform archiving management functions
Monitoring	Check consistency of foreign trade data in the material master

These are described in more detail below.

Additionally, there is a text area or picture container in the *Preference Processing Cockpit*. In this area, you can display either a picture or a text. You can include the standard picture or a text in

Preference Processing Cockpit

this screen from Customizing or by choosing *Environment* → Maintain user data from the initial screen. The standard picture is SD_FT_PRE_START. You can create a standard text for display in this section by choosing *Tools* → *Form print* → *SAPscript* → *Standard text* from the SAP standard menu.

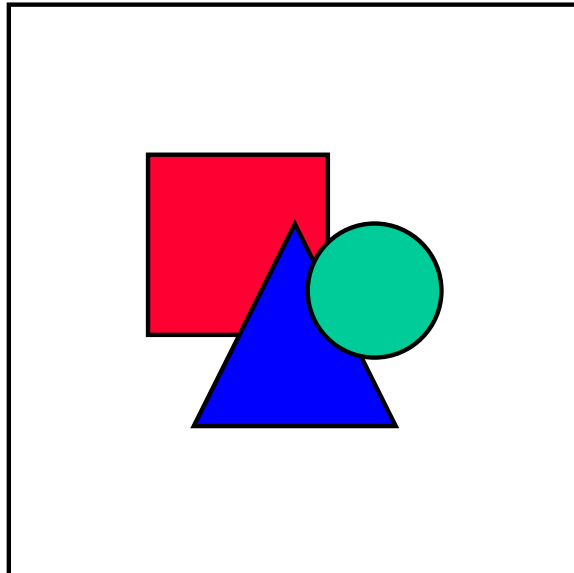
Vendor declaration

This function enables you to request necessary vendor declarations, make your declarations available or create vendor declarations for your customers.

From the *Vendor* tab, you can request or dun expiring vendor declarations. From the *Customer* tab, you can create vendor declarations for your customers.

You have the choice of three tasks. You can

- Send a letter with a list of the articles
- Use a form recommended by the authorities
- Send a serial letter if you have an interface to Microsoft Word



Important Note: The three possibilities are not to be understood as cumulative, but rather as alternatives. The second choice creates several papers since a new form is created for each originating country. For the third choice, Microsoft Word 6.0 or greater must be installed on your system.

See also:

[Vendor Declaration \[Page 15\]](#)

[Request/Dunning of Expiring Vendor Declarations \[Page 17\]](#)

Administration

With these tasks, you can

- Display vendor declarations
- [Maintain vendor declarations \[Page 20\]](#) in the system

- [Aggregate the vendor declarations \[Page 21\]](#) in the material master

Master data

In this section, you can maintain the master data in material master records, bills of material, purchasing info records and vendor master records for *Preference Processing*. In this step, all long-term vendor declaration data in the purchasing info records can be aggregated and a vendor declaration indicator assigned in the material master record. This data is then used for preference calculation.

Environment

This section provides links to *Customizing* transactions in the *Foreign Trade Implementation Guide* to include the tables for

- Defining preference determination procedures
- Assigning procedures and percentages to preference rules
- Assigning preference rules to each preference zone and commodity code

Calculation

Using the bill of material (BOM), the system evaluates all the components used in an in-house produced product according to the origin to determine whether they are originating or non-originating goods.

This section enables you to perform

- Individual and collective determination (Top-down)
- Explosion of the bill of material (Bottom-up)

For text purposes or for newly created BOMs, you can use the individual determination task. Due to the large number of materials that often need to be processed, a collective determination task is also available.

Archiving

This section enables you to display a customs log directly or from the archive. It also provides an archiving management function for the preference objects.

Monitoring

This section enables you to perform a consistency check of foreign trade data in the corresponding views of the material master record. From the output display screen, you can immediately maintain any missing or incorrect data.

Preference Data in Master Records

Preference Data in Master Records

Definition

Master data concerning a material's country of origin.

Structure

Preference Data in Material Master Records

The *Foreign Trade: Export Data* view of the material master record contains the following preference data:

Preference status

This indicator records the least favorable situation regarding preference for the material:

Status	Description
A	Preference has not been checked.
B	Preference has been calculated and the preference price must be considered when pricing the order.
C	Decision was made that this salable part may benefit from preference. The price has no influence.
D	Preference is generally not authorized. This indicator can be set manually.
E	Preference benefits generally apply to this salable part. This indicator can be set manually.
F	Preference benefits generally apply to this salable part. The material is of mixed origins.



In the *Foreign Trade Export* view of the material master record, choose *Customs tariff prefs* to access the preference data.

Vendor declaration status

Since preference requires precise definitions regarding the vendor declaration, the least favorable situation is also recorded in the material master regarding vendor declaration.

Status	Description
A	No check has been made regarding the vendor declaration.
B	The vendor declaration (individual vendor declaration) has been checked and can be used.
C	The vendor declaration has been checked and a long-term declaration exists that is valid until cancelled by the vendor.

Preference Data in Master Records

D	The vendor declaration has been checked and cannot be used.
---	---

Date of vendor declaration

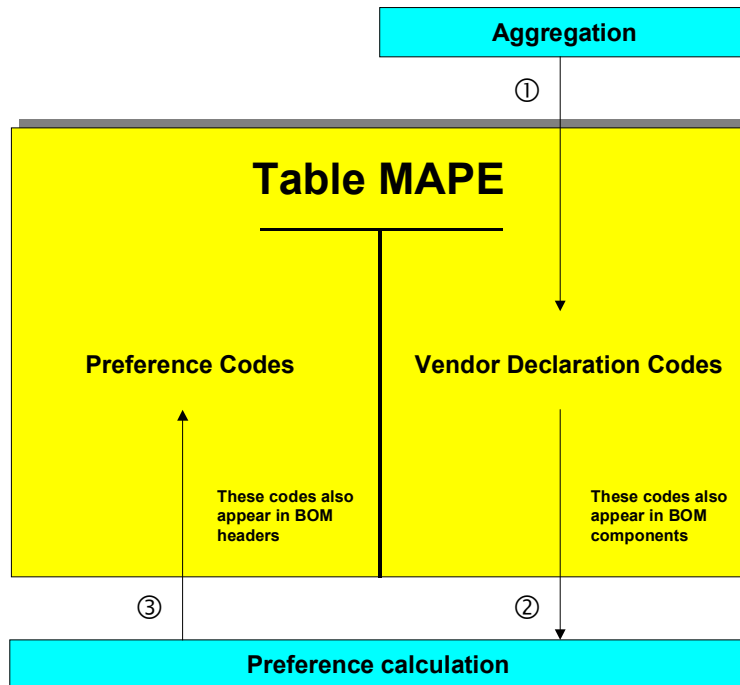
The date in the *VrDeclDate* (vendor declaration date) column in the *Customs Tariff Preference* data dialog box indicates the expiration date of the vendor declaration.

The table below shows when the system uses the preference data in material master records.

	Does the system use the data in this stage of preference handling?			
Preference data	Dunning	Aggregation	Preference calculation	Sales transaction
Vendor declaration code	Yes	Yes	Yes (as input)	No
Preference authorization	No	No	Yes (as output)	Yes

The system stores preference data in the material master record in the MAPE table. This table is under the plant data table MARC. Table MAPE consists of two parts: one for the vendor declaration code and one for the preference authorization (also called preference code). The graphic below illustrates the relationship between the two parts of the table.

Preference Data in Master Records



The system aggregates the vendor declaration indicators for a material and then enters the aggregated indicator in Table MAPE. The system then takes the indicator from table MAPE and uses it in the preference calculation. After performing the preference calculation, the system enters the resulting preference code in the table.

Preference Data in Purchasing Information Records

Data that refers to the vendor declaration status is the same in the purchasing information record as in the material master record. Purchasing info records also store the following additional data:

- Dunning indicator
- Requisition date of the dunning notice



To view or maintain vendor declaration data in a purchasing info record, display the record and choose *Extras* → *Tariff preference*.

Vendor Declaration

Definition

A document issued by a vendor to certify the origin of the vendor's product.

Use

A requirement for aggregating the vendor declaration indicator (and therefore for the whole preference determination process) is that you must know whether an input-material, delivered by a certain vendor, can be treated as originating goods (goods relevant for preference) when it is exported to a particular country. The vendor declaration contains this information. It is generally used as the basis for issuing preference certificates through customs offices.

Typically, vendor declarations are valid for a period of time (usually a year). After that period, you must ask your vendor for an updated copy of the declaration. See [Requesting and Dunning of Expiring Vendor Declarations \[Page 17\]](#).

Valid Vendor Declarations in the EU

For preference in the EU, the vendor declaration is only valid if the issuer's company is based in an EU member-state. The goods must be manufactured completely in the EU or a partner state, or they must have been sufficiently processed or enhanced within the EU or a partner state. If the product has not been manufactured within the EU, it requires a preference certificate.

The states in the table below are partner states with a preference agreement with the EU. They are considered when a vendor declaration is being used.

Vendor Declaration

EU Partner States with Preference Agreement

	Country Code	Country
	BG	Bulgaria
	CE	Ceuta, Melilla
	CH	Switzerland
	CY	Cyprus
	CZ	Czech Republic
	DZ	Algeria
	FO	Faeroe Islands
	H	Hungary
	IL	Israel
	LI	Liechtenstein
	MA	Morocco
	MT	Malta
	P	Poland
	RO	Romania
	SK	Slovak Republic
	SL	Slovenia
	TN	Tunisia
	XB	Overseas countries and areas
	XY	States in African, Carribean, Pacific regions

Request/Dunning of Vendor Declarations

Use

This function identifies vendor declarations that are due to expire. If a declaration expires, it is no longer valid proof of a product's origin. For vendor declarations due to expire, the system can print a series of letters requesting vendors to send you updated declarations.

Integration

Data Structures

The information about whether a valid vendor declaration exists for a vendor material is stored for each preference zone in the LFEI database table. This database is linked to the purchasing info record. The following example illustrates the structure:

Plant	Pref.customs zone area	VDI	Vendor dec. date	DC	Last dunned
0001	MOEL	A	12.31.1996	0	
0001	CARI	B	12.31.1996	0	
0001	EFTA	C	12.31.1996	0	
0001	MEDI	D	12.31.1996	0	

Below the terms in the table are explained in more detail.

Plant

This is the plant to which the specifications refer.

Preference customs zone area

This is the preference zone for which the vendor declaration indicator is valid.

VDI (Vendor Declaration Indicator)

Possible settings for the VDI are

Possible Settings for the VDI

A	Not checked - no specifications from the vendor
B	Checked - marked as originating goods by the vendor
C	Checked - originating. Long-term declaration exists (no dunning will be carried out since this vendor declaration is valid until canceled by the vendor)
D	Checked - vendor cannot confirm as originating goods

Request/Dunning of Vendor Declarations

Vendor declaration date

This is the date on which the vendor declaration expires. If this date exceeds the number of tolerance days in the settings (carried out in Customizing for *Foreign Trade*), then the vendor is sent a letter/dunning letter, depending on the dunning code. The validity date for the vendor declaration, dunning code, and the dunning date are identical for each material and plant in all preference zones.

DC (Dunning Code/Dunning Level)

This value is increased according to the number of letters sent to the vendor:

Dunning Code / Level

Code	Description
0/	First letter to the vendor. This is sent when the vendor declaration has ceased to be valid for longer than the number set for "tolerance days 1." The system then sets the matchcode to '1' and the dunning date is set to the current date.
1	First dunning letter to the vendor. This is sent when the vendor declaration has ceased to be valid for longer than the number set for "tolerance days 1" and when the number set for "tolerance days 2" has been exceeded. The system then sets the matchcode to "2" and the dunning date is set to the current date.
2	First dunning letter to the vendor. This is sent when the vendor declaration has ceased to be valid for longer than the number set for "tolerance days 1" and when the number set for "tolerance days 3" has been exceeded. The system then sets the matchcode to "3" and the dunning date is set to the current date.

Last dunned

Date on which dunning was carried out last.



SAP recommends that you use indicator "B" for the vendor declaration indicator. Preference determination checks the validity date of the vendor declaration when "B" is set. A long-term declaration is only valid for one year by law. "Long-term" simply refers to the option to renew.

Features

Result of a Request/Dunning Run

The result of the run is a list that gives you an overview of the requests/dunning letters that must be issued to the vendors determined within the parameters that you specified. A letter with dunning and outline text is created for each vendor and dunning level. All the relevant material-vendor combinations are considered.

The system regards as relevant every preference zone entry in plant-related info records that:

- Is contained in a valid info record that has not been marked for deletion
- Has a validity date that has exceeded the tolerance period set
- Has incomplete vendor declaration data

Request/Dunning of Vendor Declarations

An error log is created for the situations described above.

The following are not requested/dunned:

- Material-vendor-preference zone combinations that have no plant-specific info record for the plant(s) selected
- Material-vendor- preference zone combinations that have a long-term vendor declaration (Vendor declaration indicator is set at 'C')

The following also applies during processing at vendor level:

- At least one plant-specific info record must exist for a selected plant
- Only the vendor declaration data (vendor declaration indicator, validity date) in the non material-dependent LFEI record are relevant.

Function Buttons

The following buttons are available on the screen showing the results of the request or dunning run.

Button	Description
Error log	Use this button to branch to the display of LFEI records that still need to be maintained. You can print the list separately. You can also branch from here to the master data displayed.
Info record	Use this button to branch to the vendor declaration data of an individual info record. All data on all preference zone customs areas for the plant-material-vendor combination are displayed. To do this, select the item line of the letter in question Branching to the info record during processing at material level is not possible.
Vendor	Use this button to branch to the display for the LFEI data in the vendor master.

Activities

You can execute this function from the [Preference Processing Cockpit \[Page 9\]](#).

Maintenance of Vendor Declarations

Maintenance of Vendor Declarations

Use

This function allows you to create, edit, and display vendor declarations in the system.

With this function, you can maintain vendor declaration indicators and expiration dates. If you want to edit other vendor declaration data like the preference zone, maintain the purchasing info record or the database table LFEI.

To	Menu path	You should know
Create or edit a vendor declaration	From the <i>Administration</i> section of the Preference Processing Cockpit [Page 9] , choose <i>Maintain VD</i>	Enter the selection criteria for the vendor declarations you want to maintain and then choose <code>ENTER</code> . After maintaining the vendor declaration indicator and expiration date, save the declaration.
Display a vendor declaration	From the <i>Administration</i> section of the <i>Preference Processing Cockpit</i> , choose <i>Display VD</i>	Enter the selection criteria for the vendor declarations you want to display and then choose <i>Program</i> → <i>Execute</i> .

Prerequisites

When you maintain a vendor declaration, you must specify the vendor, the purchasing organization, and the plant. The system then proposes all materials for which valid purchasing info records exist for the vendor you enter.

Features

You can maintain the indicator and the expiration data of the vendor declaration per preference zone.

The system can propose default values for the vendor declaration indicator and the expiration date on the initial screen for creating declarations. This way, you do not have to maintain or change each vendor declaration individually.

When you save the data that you have entered, the system resets the dunning level in the vendor declaration record to zero and updates purchasing info records with the new vendor declaration information.

Aggregation of Vendor Declaration Indicators

Use

This function examines the vendor declaration indicators for all of the components in a material. Based on this examination of the components, the system assigns one vendor declaration indicator for the entire material.



Aggregation runs are sometimes called "compression runs."

This function is a prerequisite for preference determination because the calculation to determine the preference code uses the aggregated indicator. (In contrast, the [Aggregation of Vendor Declarations by Trading Goods \[Page 25\]](#) function assigns a preference code without performing a preference calculation.)

This function enables you to select all info records for a material. The most important factor when taking an info record into account is the last purchasing activity for the vendor. The system compares the date of the last purchasing activity with the current date. If the purchasing date is further back than the tolerance specified (purchasing tolerance days), then the info record is not taken into account during aggregation.

The system checks the entered ordering tolerance during compression run RMLEVE00 against the date of the last purchase order in the info record. The system processes the info record if the last purchase order date lies within the tolerance range. The system performs this check only for plant-specific info records since the date of the last purchase order can only be explicitly determined here. The system does not process info records on the purchasing organization level if the date of the last purchase order lies outside the tolerance range for purchase orders entered. Furthermore, if you select a valid plant info record for which no LFEI records exist, the system creates dummy records for the compression of each customs area from T604G with negative VD indicator for further processing.

For each material/plant and preference zone, the vendor declaration indicators are read from structure LFEI and they are aggregated according to the following rules in the material master:

- Blank equals A
- D before A, B and C
- A before B and C
- C equals B

For an explanation of these values, see "Integration" below.

The system always copies the most negative value for each material/plant/preference zone.

If no valid info records are selected for an info record, then the external procurement material receives setting D (checked, not OK) and the mixed material receives A (not checked) during determination.

You have the following selection options for aggregating the vendor declaration in the material master:

Option	Description
--------	-------------

Aggregation of Vendor Declaration Indicators

Plant	The tariff preference data is plant-related. Use this field to restrict the aggregation run to individual plants.
Purchasing group	If you make a selection here, then the system performs the aggregation only for info records with a certain purchasing group.
Purchasing organization	Enter the purchasing organization for which you are carrying out the aggregation run.
Material	Select material number/number ranges.
Material group	Select info records with materials from certain material groups.
Preference zone	If you make a selection here, then the system performs the aggregation only for the preference zone you enter.
Simulation run	This setting is selected by default in the standard system. If you deselect this setting, then the system directly updates the material master (structure MAPE) with the aggregated indicators.

Integration**Data Structures**

The vendor declaration indicator for a vendor material is stored for each preference zone in the LFEI database table. This structure is linked to the purchasing info record.

Aggregating all vendor declaration indicators is done at plant level for every preference zone. The aggregated vendor declaration indicator is stored in the MAPE database table. This database is linked to the material master. The structure is as follows:

Pref. zone	Preference	Preference date	Vendor decl.	Vendor decl. date
AKP	A	07.02.2000	B	12.31.2000
CARI	A	07.02.2000	B	12.31.2000
CZCE	A	07.02.2000	D	12.31.2000
EFTA	A	07.02.2000	A	12.31.2000
POLE	A	07.02.2000	D	12.31.2000
SUIS	A	07.02.2000	D	12.31.2000

Preference zone

This is the preference zone for export/import.

Preference

This is the preference indicator in export/import.

Aggregation of Vendor Declaration Indicators

This indicator is set if the goods are relevant for preference.



This indicator has no role to play during an aggregation run. It is only used during pricing for externally procured parts.

Preference date

This is the date of preference determination.

Vendor declaration

This is the aggregation indicator for the vendor declaration for each preference zone. Possible settings include the following:

Aggregation Indicator Settings

A	Not checked - no information from vendor
B	Checked - marked as originating goods by all vendors
C	Checked - long-term declaration exists (not checked, will not be checked since this vendor declaration is valid until canceled by the vendor)
D	Checked - not originating goods

Vendor declaration date

The expiration date of the vendor declaration for the relevant preference zone. The most recent date of all the vendor declarations is set here.

This can be controlled in the material master in the purchasing screen or in the sales and distribution screen.

Activities

You can execute this function from the [Preference Processing Cockpit \[Page 9\]](#).



You can perform an aggregation run online or as a batch process. Because the run can take a long time, we recommend that you perform it as a batch process.

Aggregating Vendor Declaration Indicators

Aggregating Vendor Declaration Indicators

1. From the *Administration* section of the [Preference Processing Cockpit \[Page 9\]](#), choose *Aggregate VD*.
2. Enter the criteria for the aggregation run.
3. Choose *Program* → *Execute*.



You can perform an aggregation run online or as a batch process. Since the run can be lengthy, we recommend that you perform it as a batch process.

Vendor Declaration Aggregation by Trading Goods

Use

This function aggregates the vendor declaration indicators for a material and assigns a preference code without performing a preference calculation. The system uses the preference code this function identifies directly in sales and distribution (SD) documents. Because this function is a short-cut to determining the preference code, use it if you need to determine the preference code for only a few materials.

The function assigns preference codes as follows:

If the vendor declaration indicator is	Then the assigned preference code is
B – a valid declaration exists or C – a valid, long-term declaration exists	C – the salable part may benefit from preference and the price has no influence
A – the system has not checked the declaration or D – the vendor declaration is not valid	D – preference is generally not authorized

Preference Determination

Preference Determination

Use

Preference determination ascertains the proof of origin for goods produced in-house. Using a bill of material, the system evaluates the components purchased from a vendor that are used in an in-house manufactured product to determine whether they are originating or non-originating. Preference determination can be performed for individual materials or collectively for a group of materials.

The preference indicator in the material master record can be changed by the results of the preference determination calculation. After the system performs preference determination successfully, it records the preference ID and the date of preference determination in the material master record. Only ID *B* (qualifies for preference) can be updated automatically. Condition records containing the determined preference price are created for the material and preference zone.

The function also calculates a price by using existing preference agreements between individual preference zones and preference rules defined for these areas. This price is called the preference price. The function stores the preference price in a condition record, defined for a preference zone and a product. The standard condition type is called *PREF*.

The system takes the condition records into consideration during pricing in the sales order. The system compares the sales price of material with the preference price stored in the condition record. The product to be exported must reach the preference price during sales order processing if it is to be considered by the customs authorities as authorized for preference. The system indicates whether an order item qualifies for preference in the item detail screen in the sales order and in the billing document.

Prerequisites

To perform preference determination for a saleable part or an in-house produced assembly, you must make sure the following prerequisites are fulfilled:

- A material bill of material (BOM) exists
- A commodity code must be maintained in the material master record
- Preference rules are defined for the commodity code
- The sales and purchasing views of the material must be maintained
- A commodity code is defined in the material master for all components at the lowest explosion level of the bill of material
- A vendor declaration ID is defined in the foreign trade view of the material master for all externally procured components
- You must maintain the preference ID manually in the foreign trade view of the material master for all in-house produced assemblies which cannot be exploded or for which preference determination has already been performed

Bill of Material Explosion

The basis for preference determination is the bill of material. This bill of material must be exploded. The explosion enables the program to perform preference determination for all components. When you explode the bill of material, you note the following:

- The bill of material is exploded into its multi-levels
- Externally procured parts are not exploded further, even if a bill of material is assigned. This applies especially to assemblies that can be both externally procured and produced in-house. If a special procurement key is assigned to these components in the material master record, the procurement type is determined using this key and the explosion controlled accordingly. If this key is not assigned to the components, the system considers them to be externally procured and will not explode them further even if a bill of material exists.
- If one of the components is an assembly with a multiple BOM, the corresponding bill of material is selected and exploded based on the required quantity for the components.

After explosion, all the exploded bill of material items are displayed. In the case of errors, processing is terminated and a note is issued. You can also check bills of material for alternative items. See [Preference Determination for Bills of Material with Alternative Items \[Page 35\]](#).

How the Bill of Material is Processed

The material value for the bill of material components is calculated as follows:

- Component quantity * standard price or cost price/price unit

Bill of material items, such as text items that are not relevant for preference determination, are not passed on to the calculation stage.



Only material bill of materials (type *M*) can be processed in preference determination. The bill of material type is checked at the beginning of preference determination.

Features

You execute individual and collective preference determination from the *Calculation* section of the [Preference Processing Cockpit \[Page 9\]](#).

Individual Determination

Individual determination can be carried out for new materials on-line if there are not too many components in the corresponding bill of materials (BOM).

Collective Determination

Collective determination is generally performed in the background every three months, depending on the agreements that have been made with the appropriate authorities.

Additional Information

Fields in these reports that need further explanation include the following:

- **Standard length of tariff alternation**

Preference Determination

In general, the assumption is made that tariff alternation is carried out with the first four numbers of the commodity code. You can change this specification in the 'tariff alternation' parameter. Changing this specification is necessary in areas such as preference determination for NAFTA, which requires alternation for the first 6 digits. In Customizing, you can define deviating tariff alternations by commodity code or by ranges of commodity codes. If the table remains empty, then only the parameter specification is valid.

- ***Explode alternative assembly***

Select this option if you are working with assemblies for which preference determination has not yet been performed.

- ***Simulation***

If you have selected this field, preference determination can be simulated. The real preference determination run, which updates the preference data, is only carried out after the log has been checked and processed.

Result of Determination Run

As a result of the determination run, the system

- Generates [preference determination run logs \[Page 36\]](#)
- Updates the material database
- Creates the PREF condition record

Activities

The system records the results of individual and collective determination in the spool file. This file serves as documentation in case of a customs inspection or external audit.

Another result is that the corresponding material master is based on the preference situation.

One more result is significant for sales and distribution processing: condition records are created for each preference zone, plant, and material number. These condition records can be used in a sales and distribution pricing procedure to establish whether a particular item is authorized for preference.

Preference Determination Process

Purpose

This process explains how the system determines whether a material qualifies for preference.

Process Flow

1. The system determines the plant.
2. The system determines the material master data for the main part.

This check searches for the preference ID in the material master record. The ID has a direct influence on the scope of preference determination. Preference ID values are shown in the table below:

Preference ID Influence on Preference Determination

ID	Effect on preference determination
A	The check is carried out.
B	The check is carried out.
C	No check is carried out, since preference is generally authorized. A message appears in the log.
D	The check is not carried out, since preference is generally not authorized. A message appears in the log.
E	The check is carried out, but the material master is not updated. A message appears in the log.
F	The check is carried out and the price for this main part is recorded, but the material master cannot be changed here. This indicator is needed for products of mixed origin (an in-house produced part and an externally procured part). A message appears in the log.



The indicators *E* and *F* are special cases. They are only assigned to insignificant parts of a material.

Only indicator *B* is entered automatically in the material master after preference determination. The other indicators must be entered manually.

3. The system next checks the commodity code. If this code is not available in the material master, this is noted in the log.
4. Depending on the information found in the material master record, the system reads the following Customizing tables (in *Customizing*, choose *Sales and Distribution* → *Foreign*

Preference Determination Process

Trade/Customs → *Preference Processing*) to determine the material share for each preference zone:

- *Assign Commodity Code and Rule by Preference Zone*

The standard rule that contains the procedures for preference determination is defined in this table. An alternative rule can also be defined.

The valid rules are processed for each preference zone. If no rules are found, a message is recorded in the error log.

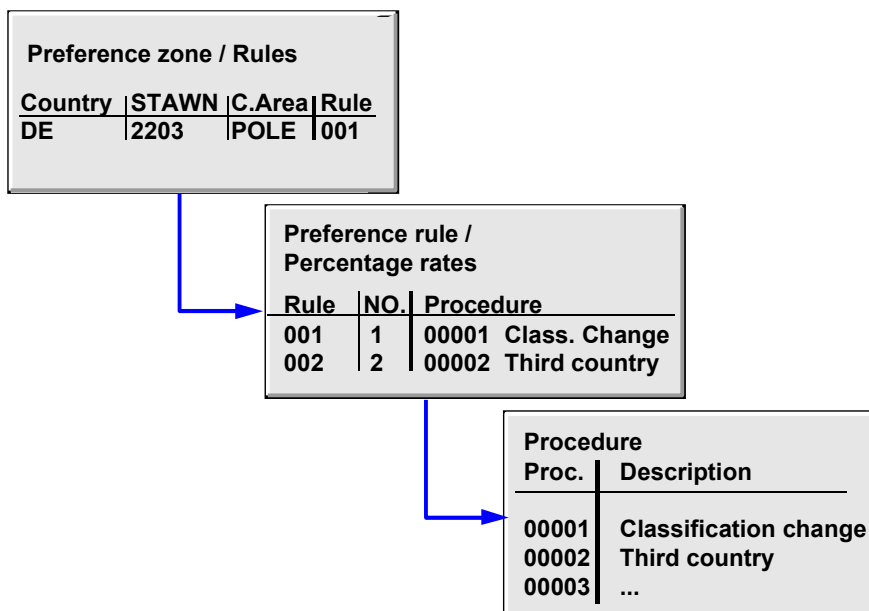
- *Assign Preference Rule / Percentages*

This table contains the preference procedure, the HS (Harmonized System) number, and the corresponding percentage for each preference rule and sequential number. On the basis of the rules, the system calculates the preference price. It adopts the highest determined price as the preference price for the main part in the preference zone that has just been processed.

If an alternative rule has been defined, preference determination is performed based on this rule as well. In this case, the system adopts the better price (that is, the lower determined price).

The preference price is determined separately for each preference zone.

Preference Determination: Control Tables



- For externally procured components, the system reads all the plant data in the material master record to determine the ID and validity date of the vendor declaration.
- The system checks whether any alternative items have been defined for the bill of material.

If there are alternative items, they are checked, evaluated and selected for each new preference zone.

See also:

[Determination of Material Share by Preference Zone \[Page 32\]](#)

[Preference Procedures \[Page 33\]](#)

[Preference Determination for Bills of Material with Alternative Items \[Page 35\]](#)

Determination of Material Share by Preference Zone

Determination of Material Share by Preference Zone

Use

To determine the proportions of a material that come from different preference zones, the function calculates the following:

- Originating value
- Non-originating value
 - Value with classification change
 - Value without classification change
- Collective value

Calculating the Classification Change for Non-Originating Goods

The system checks the vendor declaration for each component in the bill of material and calculates the classification change for non-originating goods. The possible results of the check are shown in the table below:

Value	Meaning	Result
A	Not checked	Non-originating goods
B	Checked and valid	Originating goods
	Validity date > Current date	Originating goods
	Validity date < Current date	Non-originating goods
D	Checked and invalid	Non-originating goods

Classification Change for Non-Originating Goods

The system compares the first four digits of the components' commodity codes with the first four digits of the main part's commodity code. Note that you can set the number of digits with parameters during pricing. The following calculations can be performed:

If the first four digits are...	Calculation
The same	Classification change: redetermine value
Different	No classification change: redetermine value

Preference Procedures

Definition

Methods the system uses to calculate a material's preference price (the price at which the material must be sold to qualify for preference).

Use

Below the system's six preference procedures are described. The table indicates which of the procedures are used in the EU and NAFTA.

Preference procedure	Used in the EU?	Used in NAFTA?
Classification Change Procedure	Yes	Yes
No Classification Change Procedure	Yes	Yes
Third Country Procedure	Yes	Yes
50:50 Rule Procedure	Yes	No
HS Classification Procedure	Yes	No
Operation Codes	Yes	No

Classification Change Procedure

This procedure defines how high the percentage share of non-originating goods with a classification change may be for the main part to be classified as originating goods.

PP (preference price) = Material value with classification change multiplied by 101 divided by the percentage rate

If the specified share is 100% and a value without classification change is determined, the determined price is set to the maximum value because the requirement was not fulfilled.

No Classification Change Procedure

This procedure defines how high the percentage share of non-originating goods without classification change may be for the main part to be classified as originating goods.

PP = Material value without classification change multiplied by 101 divided by the percentage rate

Third Country Procedure

This procedure defines what the maximum percentage share of non-originating goods may be for the main part to be classified as originating goods.

PP = Third country material value multiplied by 101 divided by the percentage rate

Preference Procedures

50:50 Rule Procedure

The value of all non-originating components may not exceed the value of all originating components. If the non-originating value exceeds the originating value, the determined price for the main part is set to the maximum as the requirement was not fulfilled. The specifications made for the percentage are irrelevant for this procedure.

HS Classification Procedure

This procedure defines how high the share of components from a third country with a specified commodity code may be (or must be) for the main part to qualify for preference.

Operation Codes

A percentage is specified in the preference rule. An operation code is also defined. This code controls how the percentage is to be interpreted. The operation code can specify the following:

- The material may contain a maximum of the share defined in the preference rule to qualify for preference.
You can use the code *LE* in this case.
- The material may not contain less than the share defined in the preference rule to qualify for preference.
You can use the code *GE* in this case.
- In the case of HS classifications, the operation code can indicate that a material must/must not contain a specific share of components with a specified commodity code to qualify for preference.

You can use the codes *CO* and *NA* in these cases.



You can enter an additional back-up percentage during preference determination. This specification ensures that a back-up buffer amount of x.xx% is also determined when the preference price is calculated.

For example, you enter 1%. This can change calculation of classification change procedure:

$$PP \text{ (preference price)} = \text{material plant - classification change} * 101 / \text{percentage rate}$$

Preference Determination for Bills of Material with Alternative Items

Use

After exploding the bill of material, the system checks the components for alternative items. For each new preference zone, the system must check which alternative items can be used for preference determination. As different preference rules are valid in each preference zone, different alternative items may be selected in each preference zone. The system always selects the item which has the worst effect on the preference price of the main part. Starting with the lowest bill of material (BOM) level, the system checks which alternative items qualify for preference.

Features

Assembly with Exploded BOM

If an alternative item is an assembly and cannot be exploded because of a selection parameter, each alternative item is treated as a main part. This means that preference determination is performed for the material of the alternative item. However, which procedures and rules are selected depend on the commodity code of the main part.

In-house produced components qualify for preference if they have been included based on selection data in the most recent preference determination without changing the database. Preference also requires that a valid preference ID and a preference price could be determined for them.

Assembly Without Exploded BOM

If an alternative item is an assembly and cannot be further exploded based on the selection parameter, the system presumes that preference determination has already been performed for the alternative item.

In-house produced components qualify for preference if the following conditions are true:

- Preference determination has already been performed for them
- They have a valid preference ID in the material master record
- They have corresponding preference price condition records

Externally Procured Components

Externally procured components with a valid vendor declaration qualify for preference.

Preference Determination Logs

Preference Determination Logs

Definition

Logs that record system activity during preference determination.

Structure

The system creates three preference determination logs:

- Preference log
- Error log
- Process log

When you start preference determination as a background job, these logs are created automatically. While you are online, you are asked if you wish to update the material master after preference determination. If you initiate this function, the logs are created even if the determination run is terminated or a manually entered preference ID means that preference data may not be updated.



If you activate the simulation parameter, preference determination can also be performed in the background and the logs are created without the data being saved.

Preference Log

The preference log is created for each successfully processed material.

The first part contains data on the main part:

- Material number
- Material description
- Bill of material data
- Commodity code
- Date and ID from the last preference determination
- Date and ID from the latest preference determination

In the second part, the following data is issued for preference zone:

- Preference rule used
- Material value of the components
- Preference price calculated

In the third part, the following data is issued for each preference zone:

- Components used including the material number, material description, commodity code, quantity, and value.
- In the case of externally procured components, the vendor declaration ID

Error Log

There are three types of error messages:

- Error messages and notes regarding the main part
- Error messages and notes regarding the components
- Error messages and notes regarding the table entries

In the first part of the error log, data on the main part is displayed.

In the second part of the error log, the error messages and notes for each error that occurred are displayed with a separate heading.

Process Log

This log informs you of the following:

- Which materials were selected for preference determination
- Whether preference determination could be performed

Use of Preference Results in SD Documents

Use of Preference Results in SD Documents

Use

This function compares the *Ex Works price* with the preference condition record from condition type *PREF*.

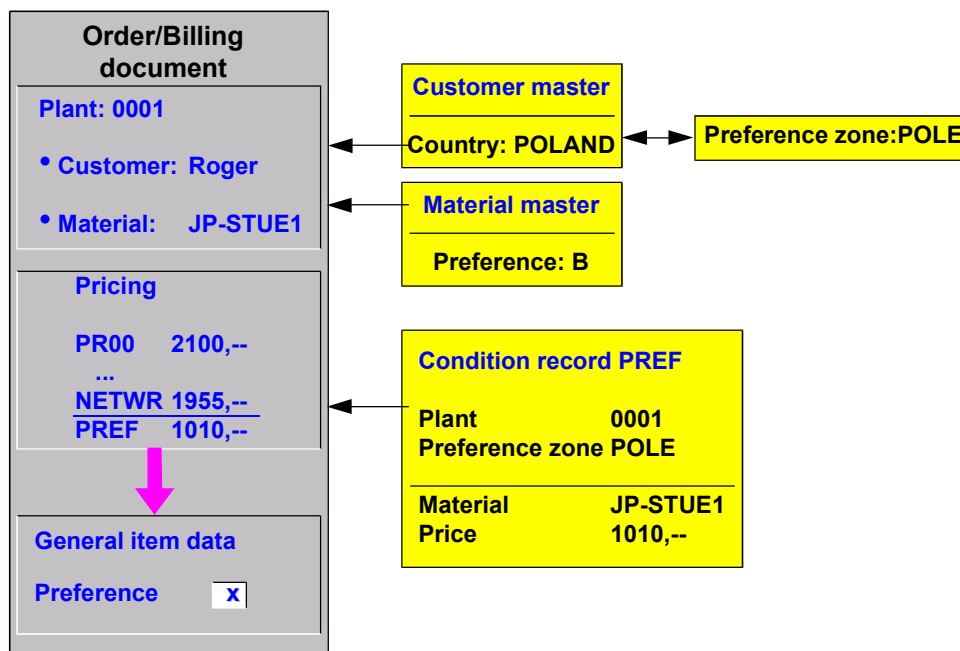
If the plant price is greater than or equal to the preference price in *PREF*, the item qualifies for preference. If the plant price is less than the preference price in *PREF*, the item does not qualify for preference.



The standard system uses the preference pricing procedure *PREF000* for preference determination.

The graphic below illustrates a situation in which an item qualifies for preference because the plant price (*NETWR*) is greater than the preference price (*PREF*).

Preference Processing in the Order/Billing Document



About Preference Handling

There are several possibilities for qualifying your product as originating in your country or economic zone. In NAFTA, for example, these methods include:

- **Tariff shift (rules of origin)**
Tariff shifting means you apply enough labor to the product or its components to change its commodity code.
- **De minimus rule (maximum of 7% non-originating goods)**
The de minimus rule allows a product to qualify for preference if no more than 7% of the product is composed of non-originating goods.
- **Certificate of origin (vendor declaration)**
Your vendors give you a document certifying that the product or its components originate in your country or economic zone.

To determine the origin of a part manufactured in-house in the EU, for example, you must first determine the whole value of all component parts in the structure list according to the following places of origin:

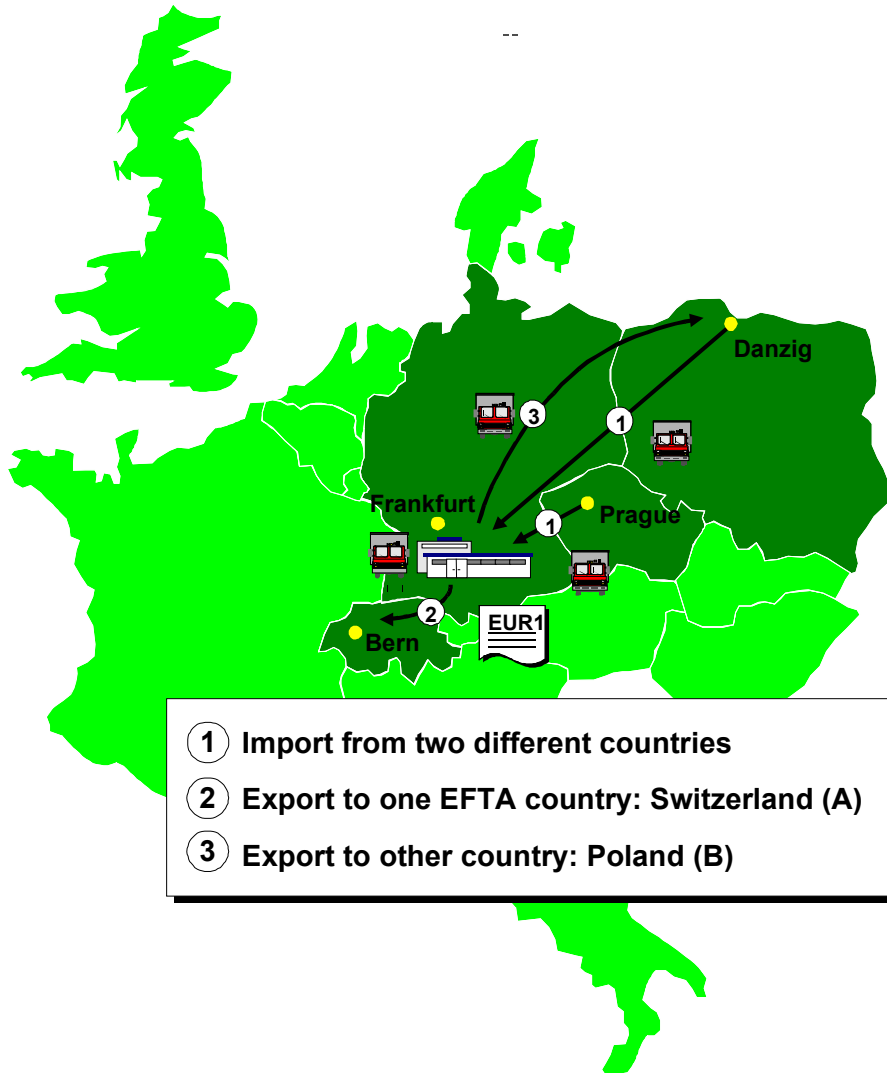
- European Union
- EFTA
- Third country
- Associated countries

You should make sure that, in the case of components that are also parts in a single-level bill of material, the valuation prices (that is, the value of the exploded structure) are considered.



On the basis of existing preference agreements between the EU and Poland, the Czech Republic, and Switzerland, the goods movements shown in the following graphic are relevant for preference processing.

About Preference Handling



- ① Import from two different countries
- ② Export to one EFTA country: Switzerland (A)
- ③ Export to other country: Poland (B)