

Rules of Origin

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Introduction

- Globalisation makes determination of origin complex
 - E.g., Airbus A380 components sourced from 5 different countries
- Complexity requires accurate identification of goods' origin.



Source: Air Charter Service



Why does RoO matter?

- Ensures fair trade under Free Trade Agreements
- Prevents trade deflection
- Basis for preferential tariffs & compliance
 - Enabling Clause & Generalised System of Preferences
- Collection of trade statistics



Key Learning Areas



Rules under GATT/WTO



Meaning of Origin



WTO Agreement on Rules of Origin



RKC (Annex K)



Certificate of Origin and Compliance



Overview of Rules of Origin

- Definition & complexity (EEA protocol = 151 pages)
- Less developed than tariff & valuation rules
- WTO ARO & WCO Revised Kyoto Convention = key legal instruments



Free Trade Areas & Agreements

- FTAs provide preferential tariffs & other benefits to members only
- Rules of origin ensure goods qualify for preference
- Encourages local sourcing & value-added production
 - Statements needs qualification
 - may encourage trade-diversion



Examples of Regional Agreements

RTAs examples:

- ASEAN Free Trade Area
 - NAFTA (USMCA)
 - COMESA, Mercosur, EFTA
- Bilateral FTAs:
 - Australia (NZ, Singapore, Thailand, Chile)
 - China (Pakistan, Korea, Peru, Iceland)
 - USA (Bahrain, Israel, Jordan, Panama)



GATT & Free Trade Zones

- Article XXIV: Conditions for FTAs & Customs Unions
 - allows WTO members to form customs unions or free trade areas without violating the most-favoured-nation principle, provided certain conditions are met.
 - Rules must cover “substantially all trade”
- Oldest customs union in existence – SACU (1910)



GATT & Free Trade Zones

- Need for uniform global rules
- Risk of protectionism via complex origin rules
 - Protectionism anathema to free trade aspirations
 - High risk of trade deflection



“Origin” Defined

- Origin = Country where goods were made or transformed
- Two main categories:
 - Non-preferential (quotas, anti-dumping)
 - Preferential (reduced tariffs under agreements)



Non-preferential vs Preferential Rules

- Non-Preferential:
 - Application to all trade
 - No tariff benefits
 - Used for quotas, statistics, anti-dumping
- Preferential:
 - Application specific to member parties
 - Tariff reductions under trade agreements



The Rules - Wholly Obtained & Substantial Transformation

- Wholly obtained: Entirely produced in one country (e.g., harvested crops, mined minerals, fish caught within EEZ, and fish products directly derived therefrom)
- Substantial transformation:
 - Change in tariff classification
 - Specified process
 - Value-added percentage



WTO Agreement on Rules of Origin

- Outlines harmonization principles and transitional rules.
- 4 Parts + 2 Annexes
- Methods:
 - Tariff classification change
 - Value-added percentage
 - Specific manufacturing processes
- Goal: Harmonization (Article 9), work is still ongoing



Revised Kyoto Convention – Annex K

- Annex K sets Recommended Practices (RP) for origin determination.
- Criteria for wholly obtained goods, clarifies concept of “substantial transformation”
- Recommended practices:
 - Use HS Tariff for substantial transformation
 - Exclude minor operations from conferring origin



RKC vs. WTO ARO: Origin Determination Methods

Criterion	RKC Annex K	WTO ARO	Key Differences
Change in Tariff Classification (CTC)	Flexible use; varies by product	Preferred method in harmonization	WTO seeks uniformity; RKC allows discretion
Substantial Transformation	New name, character, or use	Last major processing stage	WTO focuses on 'last' transformation
Value-Added Percentage	Common method; thresholds vary	Used, but harmonization pending	RKC allows national flexibility; WTO aims standardization



Certificate of Origin & Compliance

- Certify manufacturing origin; required for preferential duty treatment
 - Used to determine import duty, quota eligibility, or legal entry
- Types of COs – non-preferential (no tariff benefits) + preferential (enables reduced or zero tariffs under FTAs/GSP)
- Issuing authority – Chambers of Commerce or authorised industry bodies
- Self-assessment for compliance purposes, adoption of risk management and compliance management tools



THE END

