

# Rules of Origin Overview

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Chemicals Roadshow  
November/December 2018



# What are rules of origin?

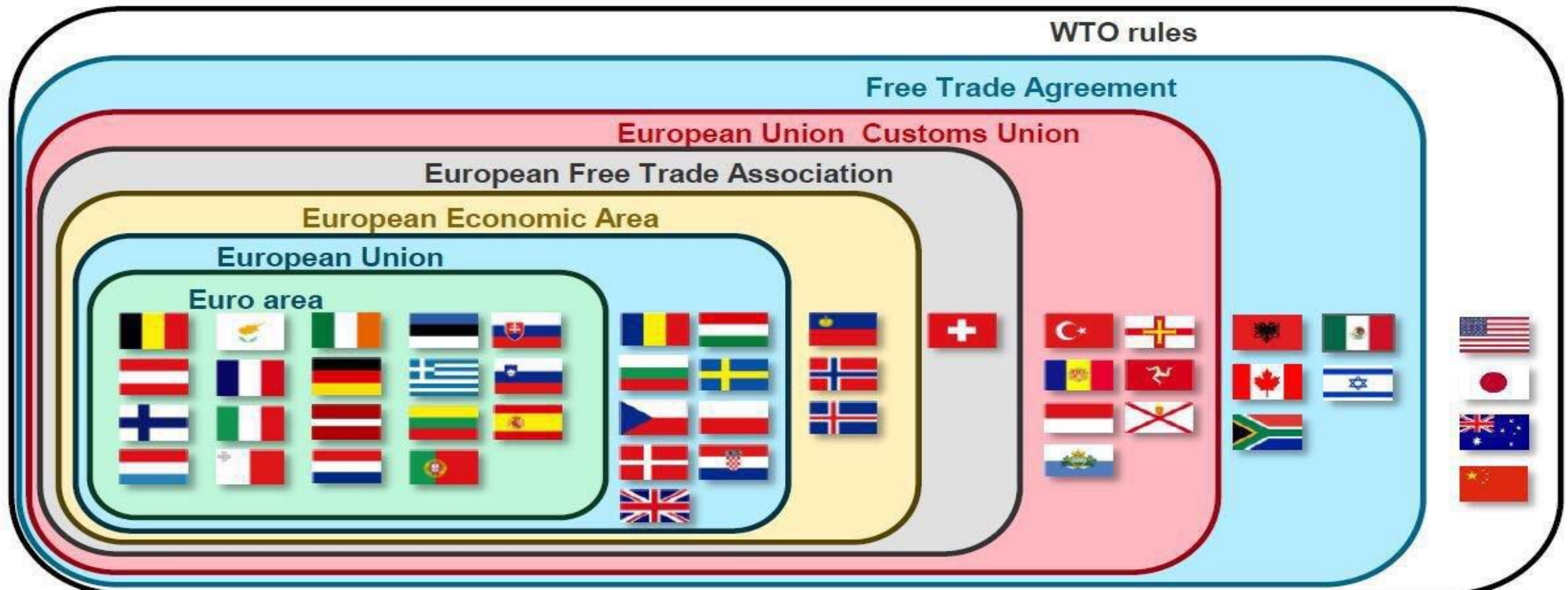
- Rules of origin (RoO) determine the economic nationality of a good. A product is considered 'originating' in a country if it has been '**wholly produced**' there, or '**substantially transformed**' in the manufacturing process.

## Why do they matter?

- The growth of bilateral and multilateral Free Trade Agreements coincided with the the development of rules of origin.
- Rules of origin ensure only countries that are party to an agreement can benefit from the preferential access (reduced or zero tariffs) to each others markets.
- Result: rules of origin curb trade deflection, prohibiting products from a country not party to an FTA from being shipped through a country that is party to the preferential agreement with another country and avoid MFN tariffs.
- Failure to meet RoO disqualifies an exporter (or importer) from benefiting from preferential trade (reduced or tariff free) with FTA partners and requires the payment of applicable MFN tariff rates.

# What is the current situation for EU-UK trade?

- Membership of the EU-Customs creates an internal intra EU market where a common external tariff and trade policy is applied at the external border of all members to all imports from the RoW.
- This removes the requirement for tariffs and customs checks (including RoO) on all intra EU- trade.



# Rules of origin within EU Free Trade Agreements (FTA)

Currently, there are two types of rules of origin that membership of the EU Customs Union gives the UK access to - Bilateral and Multilateral agreements.



- Some of the main bilateral EU-FTAs include:
- EU- South Korea; CETA; EU-South Africa
- All the above EU FTAs include a rules of origin protocol that UK business must comply with to gain reduced or zero tariff access to the FTA partners market.
- **When exporting under preference the trader must be able to verify the origin of the good this can be requested at the border of the importing nation.**
- Example: Currently US tariffs on some UK chemical exports reach 7%. A UK-US FTA could significantly reduce this.

# Pan-Euro Mediterranean (PEM) rules of origin

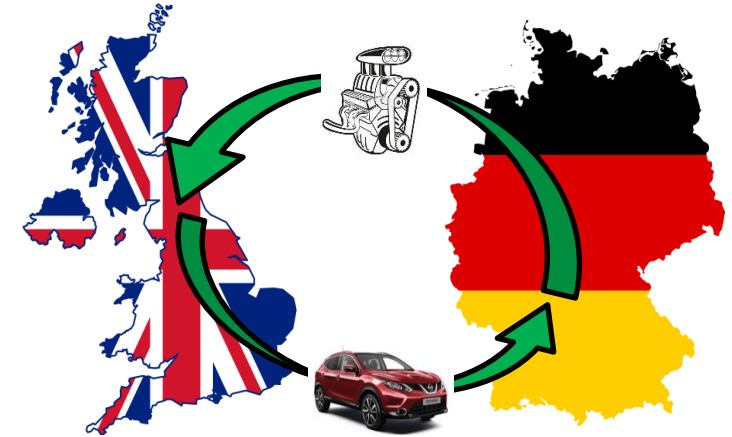


- The EU also operate Pan Euro Mediterranean (PEM) rules of origin.
- All 50 countries in the Pan-Euro Med system have FTAs with each other and follow the same rules of origin and cumulate content.
- This tends to be the EU's starting position to all negotiations with FTA partners on RoO.
- The EU ambition is to create an enlarged trading bloc where all signatories apply a harmonised set of rules of origin to simplify trading under preference between the network.
- PEM rules are currently being revised to simplify them and increase preferential trade within the group.

# Cumulation: making it easier to meet the rules

**Bilateral cumulation:** Two parties to an FTA can **treat one another's goods as domestic origin**.

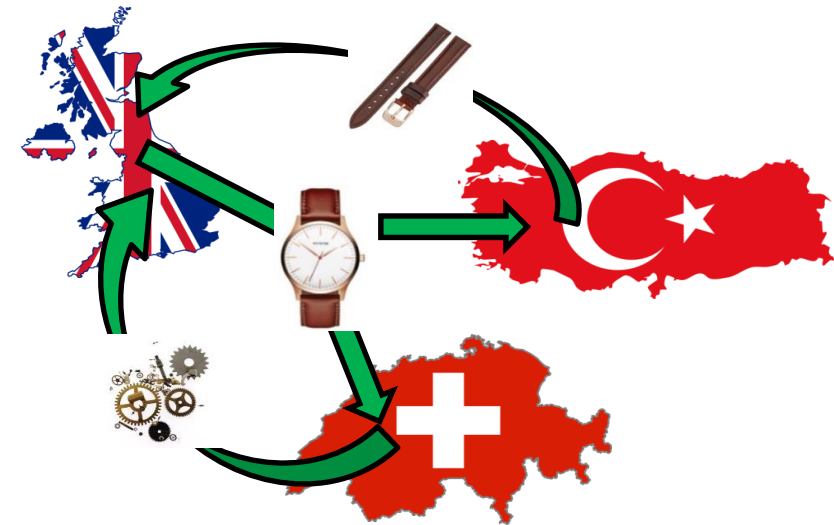
**Example:** A UK chemical company sources inputs from Germany and processes them in a UK plant. It exports the finished product back to Germany, taking advantage of the preferential zero tariff rate, as if all the inputs originated in the UK.



**Diagonal cumulation:** If countries A, B and C have agreements with each other and each **operates identical rules of origin**, country A can apply diagonal cumulation in its trade with the other two partners, if their agreements provide for diagonal cumulation.

**Example:**

UK has agreements with Switzerland and Turkey providing for cumulation and identical rules of origin. Switzerland and Turkey also have a similar agreement with the same rules of origin. The UK can use originating products from Turkey and Switzerland to make a product that will have UK origin and can be exported back with



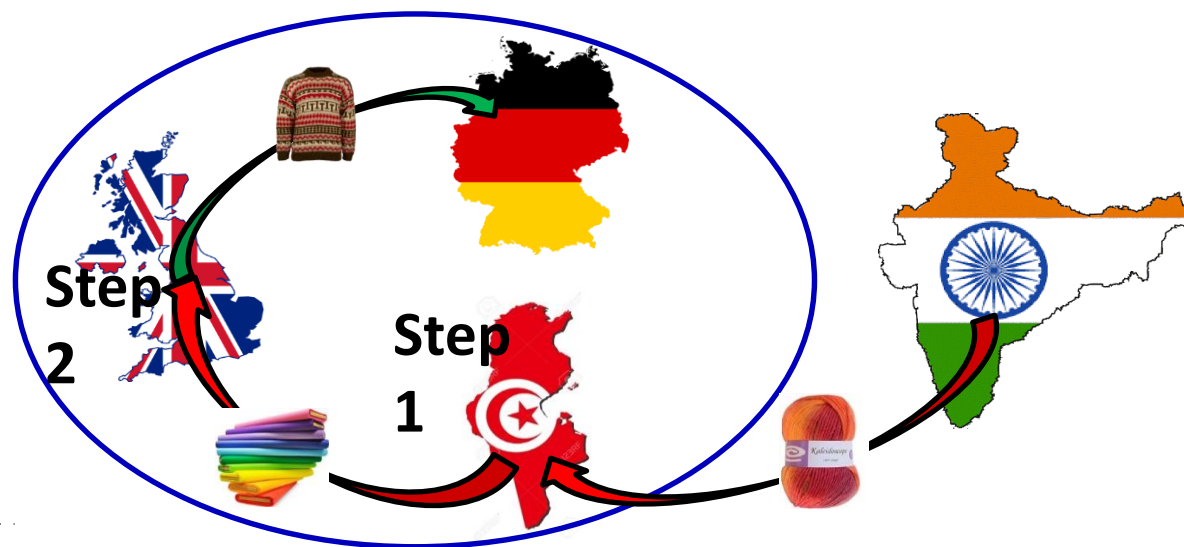
# Cumulation: counting content from each party

**Full cumulation:** All operations carried out in the EEA (+Algeria, Morocco & Tunisia) are taken into account when assessing final origin. **This is applicable for products requiring specified operations in the production line.**

It does not require that the goods be originating in one of the EEA partner countries before being exported for further working or processing in other EEA partners.

**Example:** Indian yarn is imported into Tunisia where it is manufactured into fabric. The fabric retains its Indian origin as the origin rules for fabric demands manufacture from fibre. The non-originating fabric is exported from Tunisia to the UK where it is manufactured into garments. In the UK, the finished garments obtain preferential origin status because the processing carried out in the UK is added to the processing carried out in Tunisia to produce originating garments. The double transformation requirement has been fulfilled in the territory of the countries benefiting from full cumulation. The final product obtains UK origin and can be preferentially exported to the EU.

With Full  
Cumulation  
Step 1+  
Step 2=  
Tariff free trade



# Classifying goods for the purposes of international trade

- The harmonised system (HS) provides a uniform approach to the classification of goods allowing participating (WTO) members to classify traded goods on a common basis for the purposes of verification and the enforcement of national customs policy.
- The HS comprises over 5200 product descriptions that appear as headings and subheadings, arranged over 97 chapters (sub sectors / product groupings).

Heading	H.S. Code	
		I.- CHEMICAL ELEMENTS
28.01		<b>Fluorine, chlorine, bromine and iodine.</b>
	2801.10	- Chlorine
	2801.20	- Iodine
	2801.30	- Fluorine; bromine
28.02	2802.00	<b>Sulphur, sublimed or precipitated; colloidal sulphur.</b>
28.03	2803.00	<b>Carbon (carbon blacks and other forms of carbon not elsewhere specified or included).</b>
28.04		<b>Hydrogen, rare gases and other non-metals.</b>
	2804.10	- Hydrogen
		- Rare gases :
	2804.21	-- Argon
	2804.29	-- Other
	2804.30	- Nitrogen
	2804.40	- Oxygen
	2804.50	- Boron; tellurium
		- Silicon :
	2804.61	-- Containing by weight not less than 99.99 % of silicon
	2804.69	-- Other
	2804.70	- Phosphorus
	2804.80	- Arsenic
	2804.90	- Selenium
28.05		<b>Alkali or alkaline-earth metals; rare-earth metals, scandium and yttrium, whether or not intermixed or interalloyed; mercury.</b>
		- Alkali or alkaline-earth metals :

- Rules of origin are determined at six digit level.
- BEIS lead the policy development and the negotiating strategy of **4206 product specific rules covering all industrial goods.**
- Chemicals products fall in chapters 28-38 of the HS.
- Polymers fall in chapters 39-40 of the HS.

# What are the rules that I need to comply with?

Substantial transformation is determined in 3 ways:

- 1. Change of tariff code** A change of commodity code heading on non-originating materials. *E.g. transforming propylene glycol into ink.*
- 2. Value added rule** Value added makes up a percentage of ex-works price. *E.g. adding the components of a watch together, the UK origin makes up only 25% origin and so would not be approved for preferential trade.*
- 3. Specified operations in the production line**  
Specific steps in manufacturing must take place in the designated country of origin. *E.g for textiles two stages of transformation in the origin country are required to qualify for preferences.*

**Rules vary for each product, and across FTAs**

commodity code header  
4101



commodity code  
header 42022100



Value added



wristwatch (TH 9102)  
manufactured in the EU

Case	£1
Movement	£5
Strap	£2
Battery	£0.50
Labour/profit	£1.50

UK origin  
Japanese origin  
Spanish origin  
Chinese origin  
non-material costs  
therefore UK

Total of costs = £10

Ex-Works Price

UK origin= £2.50/£10=25%

double transformation



# Defining a product and complying with the rule

Chapter Heading	Chapter Description	Description of product	HS Code	Description and Product specific rule
33	Essential oils and resinoids in perfume or toilet preparations	Essential oils (terpeneless or not), including concretes and absolutes; resinoids; extracted oleoresins; concentrates of essential oils in fats, in fixed oils, in waxes or the like, obtained by enfleurage or maceration; terpenic by-products of the deterpenation of essential oils; aqueous distillates and aqueous solutions of essential oils	3301	Working or processing, carried out on non-originating materials, which confers originating status:  Manufacture from materials of any heading, including materials of a different 'group' in this heading. However, materials of the same group as the product may be used, provided that their total value does not exceed 20 % of the ex-works price of the product

# Chemicals Panel Work Programme

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# BEIS objectives for rules of origin

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- Build up a bottom up picture of production and value add in the UK across industrial goods.
- Work with industry to develop sector specific negotiating strategies that reflect the needs and priorities of UK industry.
- Negotiate simple and business friendly rules of origin frameworks that enable as many UK businesses as possible to benefit from preferential trading arrangements with the EU and RoW trading partners.
- Protect existing pan-EU supply chains and lay the foundations for UK business to build upon long term strategic and commercial opportunities for export led growth.



# Gathering new data: Methodology

## Stakeholders give evidence

- Unrepresentative sample



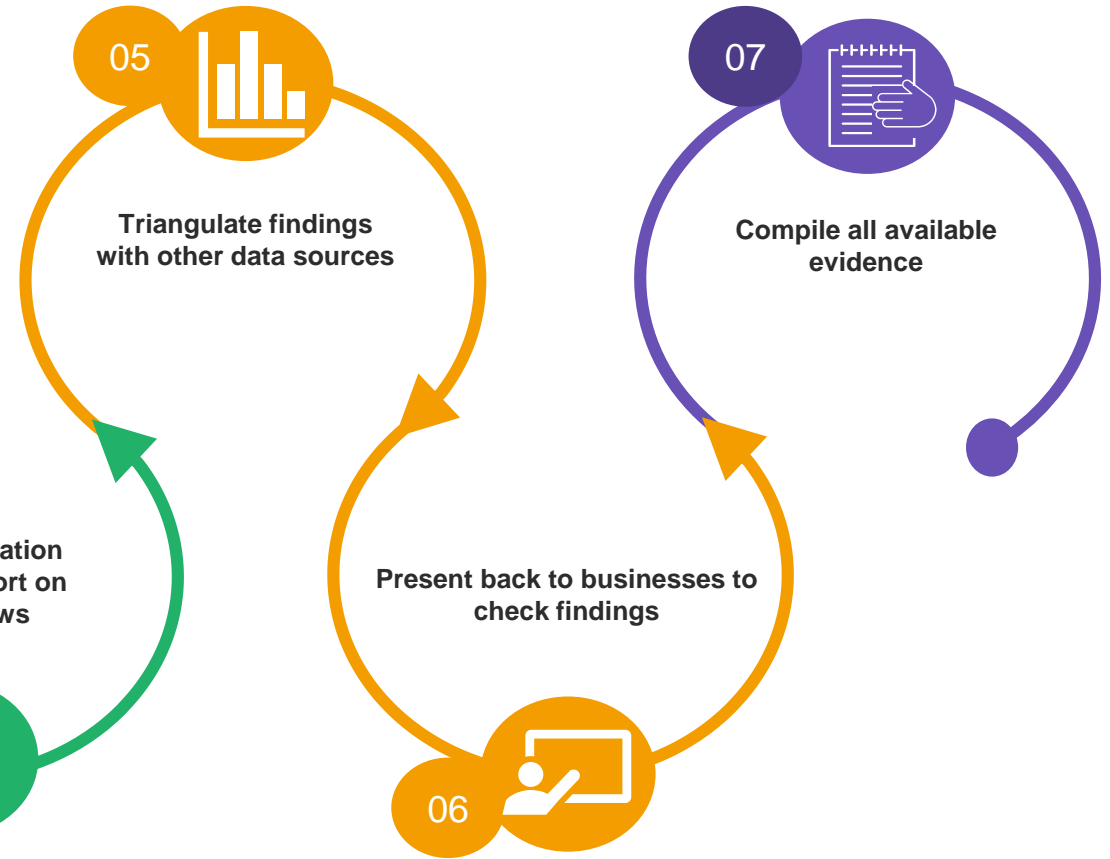
## Assess against other available data

- Additional data contextualises and makes more robust



## Draw conclusions

- UK approach based on industry views and analysis



# Existing evidence: Overview of sector

## Overview



- **Chapters 28-38 in the Harmonised System (section 8) 778 tariff lines.**
- **Includes over £65billion in annual trade (imports and exports) with the EU.**
- **£13bn Gross Value Added** to UK economy in 2017. **Direct employment 95,000** and a further **172,000** indirectly employed

## Trade



- **Total Exports (EU and RoW) of £54billion per year** (15% of UK goods exports).
- **52% of exports (£31 billion per year) are to the EU.**
- Imports from EU of £42 billion

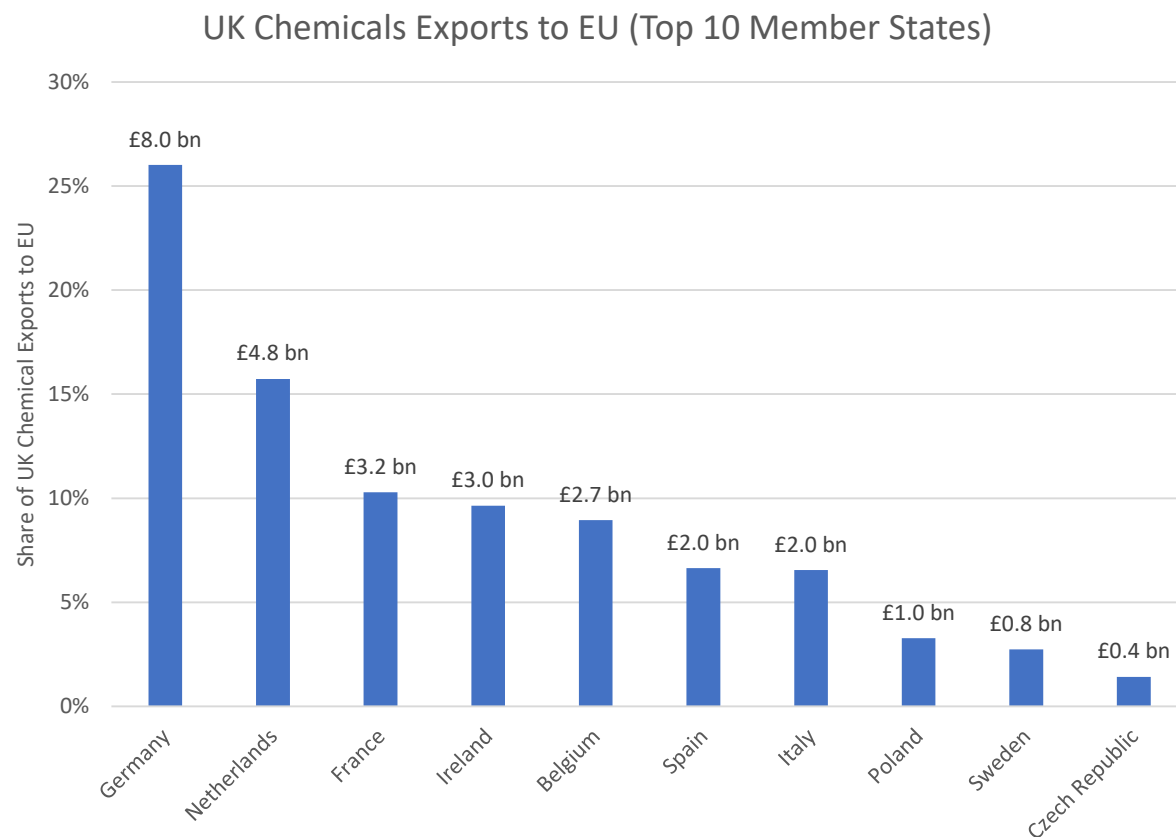
## MFN tariffs



- Tariffs range from 0% on many products to over 12% on some products. Total EU tariff wedge £447m on EU trade
- 19% of tariff lines would face 0% EU tariff – however the simplified average tariff is 4.7%
- **64% of tariff lines would face tariffs  $\geq 5\%$**

Source: Eurostat

# UK Chemicals Exports to the EU



Source: Eurostat

Source: Eurostat

## EU Trade

- 52% of UK Chemicals exports are destined for EU and 48% for RoW
- Exports to top ten EU partners cover over 90% of UK chemicals exports to EU.

## EU FTAs

- UK exporters' use of rules of origin in EU free trade agreements\* (FTAs) is high for the Chemicals and Plastics sector, at 54%. Preference utilisation was particularly high with Mexico, at 70%.
- This is behind only the automotive and food and drinks sectors, where RoO utilisation exceeds 70%. Utilisation in other sectors, such as electronics and textiles, is only around 20%.

\* includes Israel, Mexico, South Africa, Switzerland, Turkey, South Korea and Norway.

**Any further questions?**

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