

Advanced Trade in Goods Workshop Honiara, Solomon Islands

Day 2 Session 3: Rules of Origin



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Overview

1. Introduction to ROOs
2. Wholly obtained and produced goods
3. ROOs: substantial transformation
4. Cumulation
5. Other principles

1. PACER Plus ROOs - Introduction

What are ROOs?

- ROOs are rules to determine the national source of a good
 - where it comes from / where it is made
- Whether good qualifies for preferential tariff treatment
 - whether good treated as “originating” in FTA Party
 - whether good has sufficient connection with a Party
- Ensure that only goods from a *Party* – eligible under FTA - benefit from FTA preferences



1. PACER Plus ROOs - Introduction

PACER Plus allows for different ROOs:

- **Wholly obtained**: naturally occurring products (farmed, caught, mined) in a Party
- Goods **Wholly produced** in a country (solely) from materials originating in that country
- Goods with inputs from other countries have to satisfy rules of origin
 - minimum transformation or value-added in the Party

2. ROOs: wholly obtained and produced goods

Wholly obtained goods

- naturally occurring products (farmed, caught, mined),
 - Plants, vegetables, flowers, trees etc grown or harvested in a Party
 - Animals born and raised in a Party & products from those animals
 - Goods from hunting, fishing, farming, aquaculture in the Party
 - Fish and other marine goods taken from high seas, by a vessel of a Party
 - Minerals and other natural resources extracted or taken from the soil, waters, seabed in a Party



2. ROOs: wholly obtained and produced goods

Wholly produced goods

- Produced in a country (solely) from wholly obtained goods in that country
 - E.g. Jewellery made in Tonga exclusively from Tongan pearls and tapa
- Strict requirement - must not be any foreign inputs

3. ROOs: substantial transformation

What if goods not wholly obtained or produced?

- Goods can qualify for preferential tariffs even if not wholly obtained or wholly produced from local inputs
 - Must satisfy other rules – substantial transformation or value-added
- For most goods – exporters can choose:
 - Regional Value Content (RVC); or
 - Change in Tariff Classification (CTC)
 - some products - specific rules re processes / chemical reactions
 - If **multiple ROOs** for a product – exporter can choose

How do you know what rules apply?

- Set out in ROOs Chapter Annex 3-B: Schedule of Product Specific Rules

HS2 / HS4	HS6	Option 1 (CTC)	Option 2 (RVC)	Option 3 (process rule)
0401-0406		CTSH	RVC (40)	
0407-0410		CC	RVC (40)	
Chapter 05		CC	RVC (40)	
Section II: Vegetable products				
Section note: All goods grown in the territory of a Party shall be treated as originating in the territory of that Party even if grown from seed, bulbs, rhizomes, rootstock, cuttings, slips, grafts, shoots, buds or other live parts of plants imported from a non-Party.				
Chapter 06				
0601-0602		CC	RVC (40)	
0603-0604		CTH	RVC (40)	
Chapter 07				
0701-0709		CC		
0710		CC		Cooked

3.1 ROOs: Regional Value Content

- Value-added rule: requires minimum amount of final value of good to be attributable to originating materials and production costs within the Parties
- Calculate percentage of value-added within the Parties

Article 4: Calculation of Regional Value Content

1. For the purposes of Article 2, if Annex 3-B requires a good to meet a regional value requirement, the formula for calculating the regional value content will be:

$$\text{RVC} = \frac{V - \text{VNM}}{V} \times 100$$

where:

RVC is the regional value content of a good, expressed as a percentage;

V is the value of the good, as provided in paragraph 2; and

VNM is the value of non-originating materials, including materials of undetermined origin.

3.1 ROOs: Regional Value Content

Regional Value Content (RVC)

- PACER Plus requires at least 40% RVC
- Requires final production process to be performed in a Party

Example:

- Producer makes pencils using Kiribati wood, graphite imported from China, packaging from USA
- Value of pencil = \$2
- Value of graphite = \$0.25
- Packaging = \$0.25
- What's the RVC?



3.2 ROOs: Change in Tariff Classification (CTC)

Change in Tariff Classification (CTC)

- Specifies minimum level of transformation / processing of non-originating materials used in production of good
- Uses classification of goods in Harmonized Commodity Coding & Classification System (HS)
 - categorises and assigns code to all goods – range from broad categories (Chapters) to more specific categories (headings, sub-headings)
- **Chapter 62:** Articles of apparel and clothing accessories, not knitted or crocheted
 - **Heading 6205:** Men's or boys' shirts
 - **Subheading 6205.20:** - Of cotton

Chapter

heading

Sub-heading

3.2 ROOs: Change in Tariff Classification (CTC)

- CTC ROO requires sufficient processing in a Party to result in change of HS classification of any imported materials used to make the final good
- PACER Plus - different goods subject to different CTC rules - three levels:
- **Change in Chapter (CC)**: change in first 2 digits of HS code of non-originating materials in finished product
 - importing oranges (HS 0805.10) and juicing to orange juice (HS 2009.19)
- **Change in tariff heading (CTH)**: change in any of first 4 digits of HS code
 - changing pure gold (HS 7108.13) to gold jewellery (HS 7113.19)
- **Change in tariff subheading (CTSH)**: change in any of 6 digits of HS code
 - importing unroasted coffee (HS 0901.11) and making decaf (HS 0901.12)

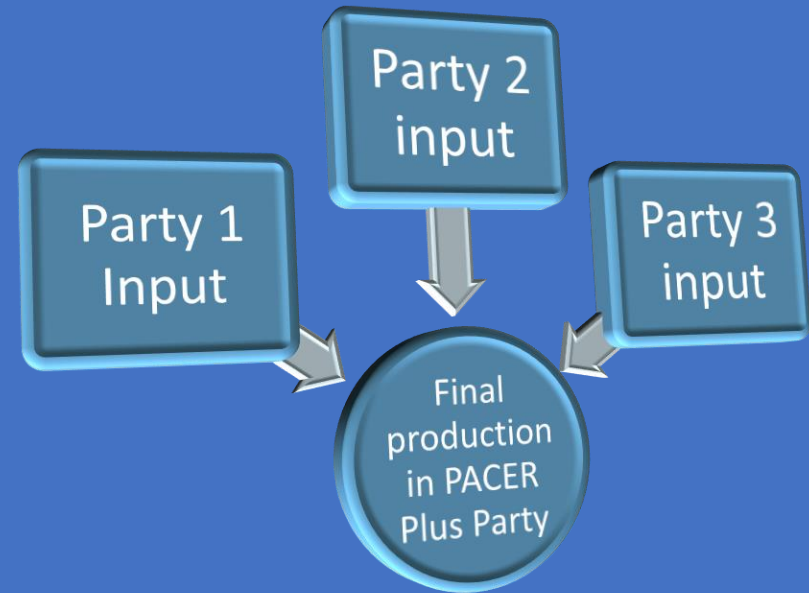
3.3 ROOs: Process rules

- Apply to *some* goods – in particular chemicals but also some other goods
- Primarily chemical reactions (for chemicals) but also:
 - cooking (for some vegetables);
 - crushing or grinding (for some spices); and
 - refining (for some fats and oils)
 - dyeing, printed and finishing textiles

Chapter 60		CC	RVC (40)	A change from fabric that is constructed but not further prepared or finished provided that it is dyed, bleached or printed and finished in the territory of one or more of the Parties
Chapter 61		CC	RVC (40)	

4. ROOs & Cumulation

- PACER Plus includes important principle of **Cumulation** (Art 5)
- Allows good originating or produced in any Party to count towards establishing origin.
- Major benefit of regional FTA - multiplies benefits of ROOs – encourages greater integration supply chains
 - E.g. machinery with inputs including Australian steel, a transformer made in Vanuatu, and the rest made in Solomon Islands
 - E.g. cosmetics made in Tonga using coconut oil from Kiribati and vanilla from Samoa



4. ROOs & Cumulation

Article 5: Cumulative Rules of Origin

1. A good is originating if the good is produced in one or more of the Parties by one or more producers, provided that the good satisfies the requirements in Article 2 and all other applicable requirements in this Chapter.
2. Originating goods or materials of any of the Parties used in the production of a good in another Party shall be considered to originate in the latter Party.
3. Production that occurs in the territory of one or more of the Parties by one or more producers may count as originating content in the origin determination of a good regardless of whether that production was sufficient to confer originating status to the materials themselves.

5. ROOs: other principles

De minimis

- Provides flexibility for **CTC** approach (*not RVC) – even if good does not satisfy CTC requirement – still qualifies as originating if:
 - Value of non-originating materials that don't satisfy CTC not exceed 10% of value; or
 - For textiles or apparel – weight of non-originating materials that don't satisfy CTC not exceed 10% total weight

Minimal operations

- If origin based on **RVC** approach – certain minimal operations not taken into account in determining origin (not sufficient transformation):
 - Ensuring preservation of goods; facilitating transportation; packaging for sale; labelling; disassembly

5. ROOs: other principles

Packaging

- Packing materials and containers *exclusively for transportation and shipment* shall not be taken into account in determining origin (applies to all ROOs)
- Packaging for *retail sale*:
 - Not taken into account for CTC or process ROOs
 - Are taken into account for RVC approach

Indirect materials

- Indirect materials are treated as originating no matter where it is produced
 - means a good used in production, testing or inspection of a good but not physically incorporated into the good
 - Includes: fuel & energy; tools; lubricants and greases, equipment, catalysts and solvents

Thank you

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