World Trade Organization
Least Developed Countries Group

Substantial transformation: Change of Tariff Classification Rules  (Paragraph 1.5 of the Decision)

8 July, Florence, Italy
Recalling Paragraph 1.5 of the Decision

• In the case of rules based on the change of tariff classification criterion, a substantial or sufficient transformation should generally allow the use of non-originating inputs as long as an article of a different heading or sub-heading was created from those inputs in an LDC...

• ...notwithstanding that product specific rules with different requirements may also be more appropriate.
Questions

• Are WTO members using a CTC requirement allowing the use of non-originating inputs as long as an article of a different heading or sub-heading was created from those inputs in an LDC?

• How many WTO members have introduced exceptions to the CTC requirement?

• What are the best practices in CTC?
<table>
<thead>
<tr>
<th>Country / group of countries</th>
<th>Using CTC requirements</th>
<th>How its used</th>
</tr>
</thead>
</table>
| European Community (EBA)     | • YES, as stand alone or as alternative to a percentage criterion | • Manufactured from any heading  
• CTH  
• CTH with single or multiple exceptions  
• CTH with HS headings exceptions  
• CTC with HS chapter exceptions  
• CTC or percentage criterion |
| Japan                        | • YES, as stand alone or as alternative or in addition to a percentage criterion | • CTH is main criteria  
• List rules:  
  - CTH with single or multiple exceptions  
  - CTC with single or multiple HS chapter exclusions  
  - CTC and percentage criterion |
| Canada                       | • NO, CTC not used in GPT  
• CTC extensively used in FTAs | • In FTAs CTC is used extensively as the main origin criteria for product-specific rules of origin |
| United States GSP and AGOA   | • NO  
• CTC extensively used in FTAs | • Same as above |
### Which are the WTO members using a CTC requirement?

<table>
<thead>
<tr>
<th>Country / group of countries</th>
<th>Using CTC requirements</th>
<th>How its used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurasian customs union</td>
<td>• No</td>
<td>• Not applicable</td>
</tr>
</tbody>
</table>
| China                        | • **Yes,** as alternative rules to percentage criterion | • Simple CTH is the criteria  
  • No exceptions |
| India                        | • **Yes,** CTC used in addition to percentage criterion  
  (30% value addition using the subtraction method) | • Simple CTH is the criteria  
  • No exceptions |
| South Korea                  | • **No,** CTC is not used | • In FTAs CTC is extensively used as the main origin criterion |
How Many WTO members have introduced exceptions to the simple CTC requirement?

Japan HS  Chapter 16  
*(Edible preparations of meat, fish, crustaceans, etc)*

- Manufactured from products other than those of Chapter 1, 2, 3, 5, 10, 11, 16 or 19

EU chapter 16  
*(Edible preparations of meat, fish, crustaceans, etc)*

- from materials of any heading, except meat and edible meat offal of Chapter 2 and materials of Chapter 16 obtained from meat and edible meat offal of Chapter 2, and …
- … in which all the materials of Chapter 3 and materials of Chapter 16 obtained from fish and crustaceans of Chapter 3 used are wholly obtained
How Many WTO members have introduced exceptions to the simple CTC requirement?

**Japan Chapter 85:**

- Manufactured in which the value of the non-originating products used of the different tariff heading from that of the products obtained does not exceed 40% of the value of the products obtained, and also ...
- ... in which the value of the non-originating products used of the same tariff heading as that of the product obtained does not exceed 5% of the value of the products obtained

**EU Ex-chapter 85:**

- Manufacture from materials of any heading, except that of the product or
- Manufacture in which the value of all the materials used does not exceed 70% of the ex-works price of the product
How Many WTO members have introduced exceptions to the simple CTC requirement?

EU 8528 TV monitors

• Manufacture from materials of any heading, except that of the product and of heading 8529 (Parts of TV monitors)

or

• Manufacture in which the value of all the materials used does not exceed 70% of the ex-works price of the product
### How Many WTO members have introduced exceptions to the simple CTC requirement?

<table>
<thead>
<tr>
<th>Rules of origin Stringency criteria</th>
<th>Japan* Coverage by chapters</th>
<th>Japan* Coverage by headings</th>
<th>EU Coverage by chapters</th>
<th>EU Coverage by headings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Manufacture from any heading</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>2. Simple CTH</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>52</td>
</tr>
<tr>
<td>3. CTH with one exception</td>
<td>2</td>
<td>16</td>
<td>21</td>
<td>27</td>
</tr>
<tr>
<td>4. CTH with exceptions or ad valorem percentage</td>
<td>0</td>
<td>0</td>
<td>32</td>
<td>44</td>
</tr>
<tr>
<td>5. CTH with Multiple exceptions</td>
<td>1</td>
<td>89</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>6. CTC with one HS chapter exception</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7. CTC with multiple chapter exceptions</td>
<td>4</td>
<td>24</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8. CTC with exceptions and ad valorem percentage</td>
<td>6</td>
<td>16</td>
<td>14</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Author's calculation

* This calculation concerns only products and sectors included in the list of product-specific RoO
What are the best practices in CTC?

• **US – Singapore chapter 16**
  A change to heading 1601 to 1605 from any other chapter

• **EU GSP rule for shoes**
  Manufacture from materials of any heading, except from assemblies of uppers affixed to inner soles or to other sole components of heading 6406
What are the best practices in CTC?

**EU GSP rule Chapter 9** *(Coffee, tea, mate and spices)*

Manufacture from any heading (including the one of the product)

<table>
<thead>
<tr>
<th>09</th>
<th>Coffee, tea, mate and spices.</th>
</tr>
</thead>
<tbody>
<tr>
<td>0901</td>
<td>Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion.</td>
</tr>
<tr>
<td>090111</td>
<td>Not decaffeinated (roasted)</td>
</tr>
<tr>
<td>090112</td>
<td>Decaffeinated (roasted)</td>
</tr>
<tr>
<td>090121</td>
<td>Not decaffeinated (not roasted)</td>
</tr>
<tr>
<td>090122</td>
<td>Decaffeinated (not roasted)</td>
</tr>
<tr>
<td>090190</td>
<td>Other</td>
</tr>
</tbody>
</table>
In many cases CTC involve the exclusion of whole HS chapters or key headings making the rules extremely stringent.

Preference granting countries should refrain from using CTC with exceptions.

In its simple form CTC is not complex and is a valuable, trade facilitating rule.

Manufacture from any heading or change of sub-headings coupled with a list of insufficient working or processing could be a best practice in certain sectors.

Many PGCs are using CTC in FTAs and not in DFQF. As a result in some cases DFQF rules may be more stringent than those under the FTAs.