

**World Trade Organization
Least Developed Countries Group**



**Committee on Rules of Origin:
Cumulation
(Paragraph 1.7 of the Decision)**

8 October , Florence , Italy

Recalling Paragraph 1.7 of the Decision

- Cumulation should be considered as a feature of non-reciprocal preferential trade arrangements.
- The core objective of cumulation is to allow LDCs to combine originating materials without losing the originating status of the materials and to jointly share materials or production.
- Certain non-reciprocal preferential trade arrangements provide illustrations of a range of cumulation possibilities, which Members may take into account in designing their preferential rules of origin.
- For example, such arrangements may allow bilateral cumulation (i.e. cumulation with the respective preference-granting country) as well as cumulation with other LDCs.
- Other possibilities include cumulation among GSP beneficiaries of a given preference-granting country and/or among developing country Members forming part of a regional group as defined by the preference-granting country.

Questions

- Which are the WTO member providing cumulation and what kind of cumulation are they providing?
- What is the kind of cumulation that is most useful?
- What are the effects of Graduation on cumulation and which countries are taking these effects into account?
- What is the impact of Mega-regionals and bilateral FTAs with preference giving countries for LDCs?

Which are the WTO member providing cumulation and what kind of cumulation are they providing?

Country/ Group of countries	Scope of cumulation		Donor country content	Document- action	Additional requirements/ Information	Other conditions	Possible derogation to rules of origin
	Full or Diagonal	Global or Regional					
European Union (EBA)	Partial/ diagonal	Regional	Yes	Certificate needed to indicate use of regional cumulation	Coordinating body of regional grouping undertakes to comply with rules,. At present SAARC, ASEAN, ANDEAN and CACM	a) Regional groups must make application and possess central organization capable of ensuring administrative cooperation b) Graduation Issue	Yes, only for LDCs
Japan	Full	Regional	Yes	Same as above	Only 5 ASEAN countries can cumulate, NO ASEAN LDCs	Regional groups must make an application	No
United States	Full	Regional	No	Not specified	At present, ASEAN, CARICOM, SADC, WAEMU are granted regional cumulation	a) Regional cumulation granted to free trade areas and customs unions	No
AGOA	Full	All sub - Saharan beneficiaries and 15% US content	Yes	Not specified	Not applicable		No
Canada	Full	All beneficiaries	Yes	Not specified	Not applicable		No

Which are the WTO member providing cumulation and what kind of cumulation are they providing?

Country / group of countries	Kind of cumulation	Full or diagonal	Comments/ additional requirements
Eurasian customs union	<ul style="list-style-type: none"> • All beneficiaries 	<ul style="list-style-type: none"> • Full 	<ul style="list-style-type: none"> • Legal text unclear as no english version available
China	<ul style="list-style-type: none"> • No cumulation 	<ul style="list-style-type: none"> • No cumulation 	
India	<ul style="list-style-type: none"> • Bilateral cumulation 	<ul style="list-style-type: none"> • No cumulation 	
South Korea	<ul style="list-style-type: none"> • No cumulation 	<ul style="list-style-type: none"> • No cumulation 	

What is the kind of cumulation that is most useful and that has mostly been used?

- Two criteria to assess the value of cumulation:
 - Quantitative: with whom is it possible to cumulate?
 - A. Regional
 - B. Bilateral
 - C. All beneficiaries
 - Qualitative: Diagonal or Full cumulation
- Experience has shown that regional cumulation has been used in ASEAN region, less in other regions.
- Cumulation among all beneficiaries has been useful under the Canadian scheme.
- Full cumulation is more liberal than diagonal cumulation: cumulation of working or processing is allowed

What are the effects of Graduation on cumulation and which countries are taking these effects into accounts ?

- Differently from past practices, under the EU GSP 2014 inputs from graduated countries like Singapore and Malaysia cannot be counted as originating material for ASEAN cumulation.
- This change has threatened the supply chains of Cambodia Bicycles producers who requested a derogation (granted) with a quota for a period of 3 years until December 2016.
- Under Canada GPT rules, inputs of countries that have been graduated remain eligible for cumulation

What is the impact of Mega-regionals and bilateral FTAs with preference giving countries for LDCs?

The case of Cambodia

- Once the FTAs with the EU are concluded these ASEAN countries will be not longer eligible under the GSP scheme and their inputs may not be longer used by Cambodia under ASEAN cumulation.
- Malaysia and Thailand already graduated
- With EU-Vietnam FTA in force, Cambodia will lose cumulation with Vietnam and Vietnam will get ASEAN Cumulation and progressively Duty free in the EU in 3-4 years

The present comparative Advantage of Cambodia in US and Canada market

- 1) US GSP does not cover garments, but it covers bicycles with a margin of preference 11% to 5.5%. The US GSP has been currently extended till December 2017.
- 2) Vietnam is not beneficiary of the US GSP.
- 3) Canada is granting Duty Free to Cambodia on all products, including Garments and bicycles with cumulation, including China and Vietnam.
- 4) AGOA and US GSP have been extended with no significant changes in RoO.
- 5) Any significant improvement for Cambodia in terms of market access and rules of origin to be expected from WTO Nairobi Ministerial?

The situation of Cambodia in US and Canada market after TPP

- 1) The TPP will cover garments that will be progressively granted Duty Free in medium term with Yarn-forward RoO
- 2) TPP RoO may provide flexibilities for Vietnam for some specific products: more lenient rules of origin for some specific kind of garments.
- 3) TPP will provide market access for bicycles in US with cumulation while Cambodia will continue to benefit from US GSP.
- 4) Preferential margin in Canada will be eroded
- 5) TPP is likely to provide for cumulation among all TPP partners

Can extended cumulation provide a solution?

- 1) Extended cumulation is a provision inserted in the EU rules of origin providing that a beneficiary country may request to cumulate with other countries that have signed FTAs with EU
- 2) Extended cumulation contains a number of limitations since it is not automatic and limited to a list of products
- 3) However, if amended, extended cumulation may provide some response to the Cambodia situation as well as to other LDCs that may be affected from Mega-regionals
- 4) Is extended cumulation envisaged in the TTP?

Recommendations

- 1) Cumulation for LDCs should be maintained even with graduated countries
- 2) Introduce the concept of extended cumulation to allow LDCs to cumulate with Mega-regionals and bilateral FTAs with preference-giving countries
- 3) Facilitate the use of cumulation on a regional and global basis