



CBI  
Ministry of Foreign Affairs

## Rules of Origin

*And why they matter to SME exporters in developing countries*

UNCTAD Executive Training on Negotiating and drafting rules of origin

Florence, April 20th 2015



## *Who are we?*

- Centre for the Promotion of Imports from developing countries (CBI)
- Ministry of Foreign Affairs of the Netherlands
- Our mission: **Contribute to poverty reduction and sustainable economic development in developing countries through expansion of exports from these countries**
- CBI provides services to governments, Business Support Organisations, and more than **700 SMEs a year** in **more than 50 countries** in **more than 25 sectors**
- Focus on exports to the European market
- > **25 sectors**: agribusiness, consumer, industrial and services
- Partner countries in Africa, Asia and Latin America



# Strategy



**Promising sectors and markets** form the basis



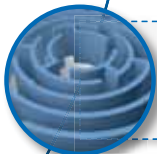
Offering a **tailor-made approach on country level**, of the framework set by our principal



To increase efficiency and effectiveness we **work together with or link into other organisations**



CBI services are **need orientated and applicable in practice**



**Anticipate pro actively and result driven** to identified trends and developments



Our services offer **information, knowledge and skills, cooperation and exchange of knowledge**



## *What services do we offer?*

- Four clusters of services:

*Export Coaching*

*Institutional Development*

*Human Resource Development*

*Market Intelligence*





# Cooperation

## National



- Ministry of Foreign Affairs of the Netherlands
- PSD partners (eg. PUM, IDH)
- Private sector (importers and trade associations)

## European



- GIZ, IPD, SIPPO, BTC, BIO, Danida, Sida, Finnpartnership, Norad, etc.
- EU export helpdesk
- Private sector

## International



- ITC
- UNCTAD
- WTO, STDF, ICTSD
- UNIDO
- WB, IDB, ADB
- ILO

## Partner BSOs



- Implementation partner
- Delegated principal
- Local external experts



## WTO, UNCTAD and CBI

- **Research** on the impact of the global economic crisis on **access to trade finance** for SMEs in developing countries
- Contribution to **World Trade Reports 2013 and 2014**
- Participant at the 4th Global Review of **Aid for Trade**
- Participant at the WTO Public Forum 2014 in collaboration with ICTSD
  
- ITC Budget holder – Netherlands Trust Fund (NTF)



# CBI trade research

Research programme covering the following types of trade research:

- Market research for SMEs in developing countries (EU market focus)
- Trade policy research – explanations and implications for SMEs
- Value chain analyses – CBI programme design





## Where can you find our trade research reports?

Go to:

- [www.cbi.eu/market-info](http://www.cbi.eu/market-info)

Or much shorter:

- [www.marketintel.eu](http://www.marketintel.eu)

The screenshot shows the CBI Market Information website. The main heading is "Get your product on the European market". Below this, there is a navigation menu with "Market information" selected. The page content includes a "Choose your market sector" section with a grid of categories such as "Fresh Fruit and Vegetables", "Apparel", "Home Decoration and Ho...", "Spices and Herbs", "Processed fruit and veget...", "Tourism", "Automotive Parts and Co...", "Coffee", "Cocoa", "Tea", "Vegetable Oils", "Wine", "Footwear", "Cut flowers and Foliage", "Timber and Timber Product...", and "Oilseeds". A "Show all market sectors" button is located below the grid. The "Latest market research" section features three articles with images: "Exporting sustainable cacao to Europe" (updated 24 March 2015), "Which trends offer opportunities on the European coffee market?" (updated 22 February 2015), and "What opportunities exist on the European market for shia from ...?" (updated 02 February 2015). The "See also" section lists related topics like "Market research for European importers" and "Want to know more about exporting to Europe?". The "CBI partners" section at the bottom lists various organizations including International Trade Centre, giz, Import Promotion Desk (IPD), Prospera, Export Helpdesk, and SIPPO.



# Rules of Origin

## What is “origin” and what are the Rules of Origin for?

**Origin** is the *economic nationality* of goods traded in commerce. It must be determined in order to know which duties, charges, restrictions or requirements apply to your product when it enters the EU market.

**The Rules of Origin** are the instruments used to determine if a product exported from a country may be considered as sufficiently linked to that country and therefore originating in this country.

For instance, if an SME from Uganda wants to export its furniture to the EU benefitting from an EPA preferential tariff, it is not enough that this furniture is exported from Uganda. It needs to be originating in Uganda.



# Rules of Origin

## *Basic concepts of Rules of Origin for SME exporters*

### *Goods wholly obtained in the country of origin*

Goods, whose production does not relate to any other country than your own country.

### *Goods sufficiently transformed in a country*

Goods, whose production involves more than your own country. The EU rules of origin define for each product the needed processing to be carried out in your country to consider the product as originating.

There are three basic criteria to determine if a product was sufficiently transformed in your country:

- ***value added rule***: you need to compare the customs value of all the non-originating materials used in the production of your good (i.e. the value declared in the your country's customs for those materials when imported there) with the ex-work price of your good (i.e. the value of your good when going out of the facility where it was produced). If the value of the materials does not exceed the threshold fixed by the rule, then the rule is succeeded.
- ***change of tariff classification***: In this case you need to compare the product's code (4 digits tariff classification) of the non-originating materials used with the product's code of your good. If indeed the code of both does not the same then the rule is succeeded.
- ***single/double transformation***: In these case you can use the quoted non-originating material, i.e. you may import the material in a previous state of production but you may not import a material in a later state of production.



# Rules of Origin

## *Cumulation for SME exporters*

Cumulation is a mechanism that permits you to consider non-originating materials used as originating in your country.

Under the EPAs the following types of cumulation are possible:

- ***Bilateral cumulation***: Materials originating in the EU can be integrated in your product and then considered as originating in your country, as long as the processing done locally go beyond minimal ones.
- ***Diagonal and full cumulation***: Materials originating in ACP countries can be integrated in your product and then considered as originating in your country, as long as the processing done locally go beyond minimal ones. Different criteria apply to each EPA.

In most of the implemented EPAs, cumulation with all the ACP countries will apply only if:

- the countries involved in the acquisition of the originating status have concluded agreements of administrative cooperation;
- the inputs and the final products have acquire originating status by application of the same rules of origin as the ones included in the EPA.

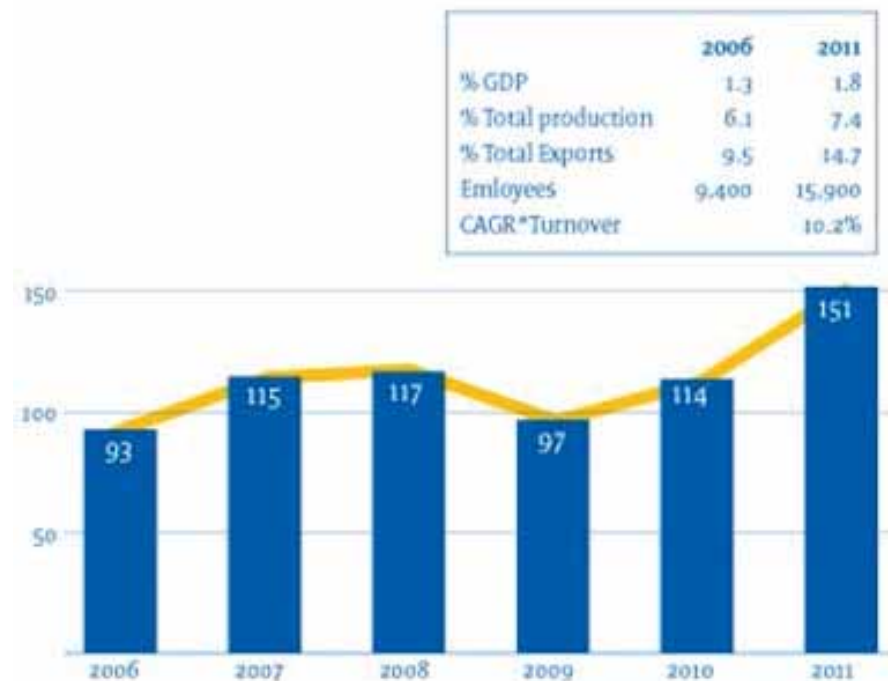


# Rules of Origin

*Rules of Origin in practice: exports of garments from Moldova to the EU*

*Garments industry: a key export sector for Moldova*

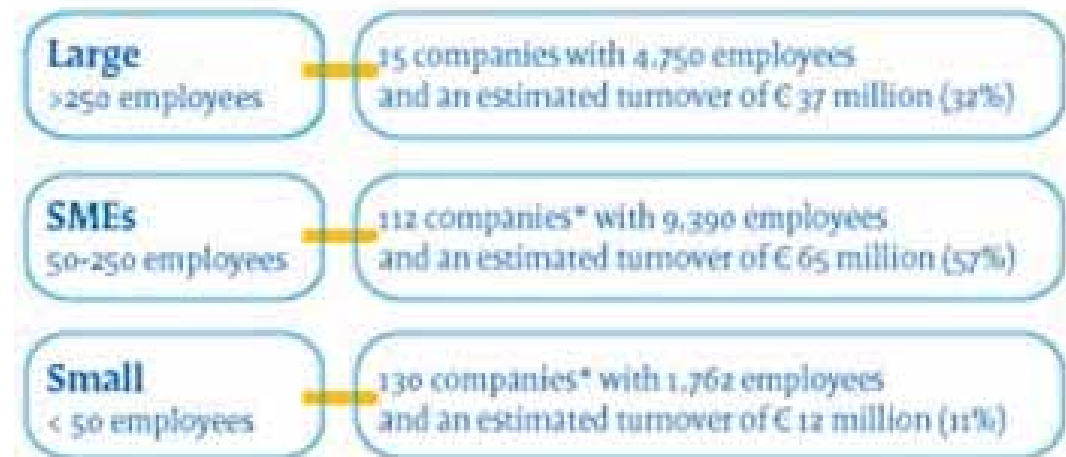
Figure 2.1 Moldovan apparel production turnover, 2006-2011, € million



Source: NBS Moldova, MIEPO (2012)

\*Note: Compound annual growth rate

Figure 2.2 Moldovan apparel producing companies, 2010



Source: NBS Moldova, MIEPO, USAid (2012)

\*Note: - ID concerns registered companies here, actually there were an estimated 1,500 apparel companies operating in Moldova in 2010.

- Shares are calculated from the total apparel turnover of € 114 million in 2010.

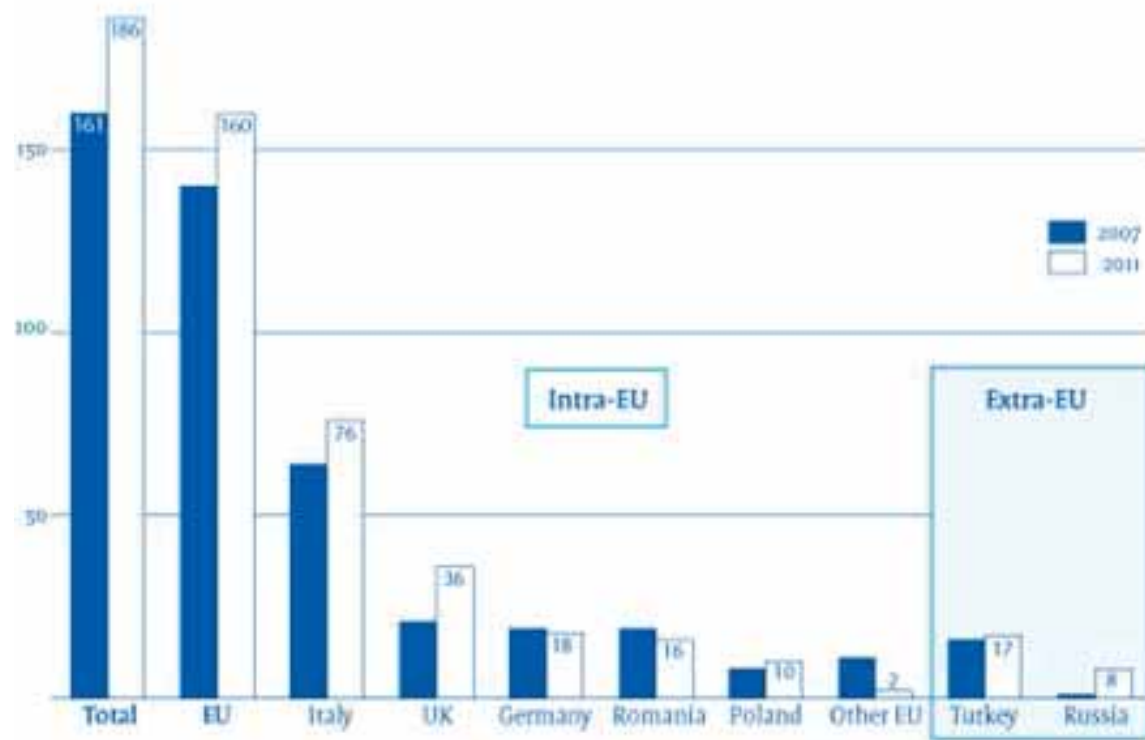


# Rules of Origin

*Rules of Origin in practice: exports of garments from Moldova to the EU*

*The EU: a key market for Moldovan apparel*

Figure 3.3 Moldovan apparel export destinations, 2007-2011, value in € million



source: ITC (2012)



# Rules of Origin

***Rules of Origin in practice: exports of garments from Moldova to the EU***

***The status (2012) of Moldovan-EU free trade arrangements for the apparel sector***

Relations between the Republic of Moldova and EU formally started with the signing of the Partnership and Cooperation Agreement (PCA) in 1994 that entered into force in 1998 for a 10 years period after which it was prolonged. This arrangement provided for a basis of cooperation between Moldova and the EU in political, economic, legal, cultural and scientific areas.

In 2004, the EU launched the European Neighbourhood Policy (ENP). With its ENP, the EU is seeking to reinforce relations with neighbouring countries to the east and south in order to promote prosperity, stability and security at its borders. In parallel with the EU-Moldova Action Plan (EUMAP), Moldova received a preferential trade regime in the form of ATPs (Autonomous Trade Preferences) with the EU for a majority of the goods produced in Moldova.

On December 5, 2011, the EU decided to launch negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) with Moldova. These negotiations will tackle a broad range of trade and economic issues in order to ensure a closer economic integration with the EU for Moldova. Main topics will concern gradual trade liberalization, free movement of labour force, elimination of technical and non-tariff barriers and quantitative restrictions and harmonization of Moldovan law with European law. (Note: June 2014 an Association Agreement was signed that introduced the DCFTA).



# Rules of Origin

## *Rules of Origin in practice: exports of garments from Moldova to the EU*

### ***Autonomous Trade Preferences (ATPs) and bilateral cumulation***

All products originating in Moldova have free access to the European Union market, except for certain agricultural products. This is arranged through the Council Regulation (EC) No 55/2008 (2), introducing autonomous trade preferences (ATPs) for the Republic of Moldova and entered into force on 31 January 2008. It has been applied since the first of March 2008.

### ***Example 1***

*Fabric originating in the EU is cut into shapes in the EU, being exported to Moldova where it is further processed. The finished trousers are exported to the EU. Because the fabric originated in the EU it is treated as originating in Moldova made into trousers there. The finished trousers have preferential origin and have free access (0% import duty) to the EU market.*



In practice, the regulation implies that Moldovan producers can use materials and components originating in the EU as if they originated in their own country. Furthermore, operations carried out in the EU can be aggregated with the operations carried out in Moldova to confer originating status on goods traded between them.





# Rules of Origin

## *Rules of Origin in practice: exports of garments from Moldova to the EU*

Moldovan apparel exports to EU are mainly based on CM(T): cut, make and trim- production. European buyers send the fabrics and trimmings to the manufacturers in Moldova. The Moldovan manufacturers cut, sew and finish the garments and re-export the garments back to the EU. The goods can be imported into the EU without paying import duty as Moldova because of the ATPs.

This is called ***bilateral cumulation***. It operates between Moldova and the EU, where a Free Trade Agreement allows them to cumulate origin. Bilateral cumulation operates between two countries where a Free Trade Agreement or autonomous arrangement contains a provision allowing them to cumulate origin. Only originating products or materials can benefit from it. In order to claim the preference, fabrics and trimmings have to be sent from the EU with a Proof of Origin, EUR1, issued in the country of export. These documents can be filled in by the European exporter and entitles to a reduction of the import duty.

### ***Example 2***

*Woven synthetic fabric of Chinese origin is imported into the EU. A European importer buys the fabric and exports it to Moldova where it is further processed into jackets. The final jackets will be considered as non-originating and will not benefit from preferential access to the European Union market and 12% import duty will be paid by the European Importer.*





# Rules of Origin

## *Rules of Origin in practice: exports of garments from Moldova to the EU*

### ***EU-Turkey Customs Union***

The EU and Turkey are linked by a Customs Union agreement, which came in force on 31 December 1995. This free trade area was established between Turkey and the European Union for many products like textiles, but does not cover all economic sectors. The EU-Turkey Customs Union is one of the (potential) steps towards full Turkish membership of the European Union. Turkey is also included in the pan-European cumulation system that was created in 1997 via an agreement between the EC, the EFTA countries, the CEEC countries (Central and Eastern Europe, not including Moldova) and the Baltic States.

Because of the present agreements between EU and Turkey, a European importer can use Turkish fabrics for processing in Moldova and benefit from the free access to Europe. But the fabrics have to be bought and sent by the European importer with the right documents. The granting of preferential origin is conditional on the presentation of a valid proof of origin for the fabrics. The required proof is for example a movement certificate EUR.1 or an invoice declaration issued in the country of export.

### ***Example 3***

*Knitted cotton fabric is imported from Turkey into the EU by a European importer. It is exported to Moldova with a EUR.1 certificate and processed into dresses. The final dresses will be considered as originating from the EU because of the cumulation system and thus will benefit from free access (0% import duties) to the European market.*





# Rules of Origin

***Rules of Origin in practice: exports of garments from Moldova to the EU***

***Diagonal cumulation, what does it mean for Moldovan apparel exports?***

Diagonal cumulation operates between more than two countries provided they have bilateral Free Trade Agreements or a Customs Union containing identical origin rules and provision for cumulation between them.

As with bilateral cumulation, only originating products or materials can benefit from diagonal cumulation. In general it means that products that have originating status in one of the partner countries may be added to products origination in any other partner country without losing originating status within the partner countries.

For instance, Western Balkan countries that make use of the “pan-Euro-Mediterranean” system of cumulation are allowed to make use of diagonal cumulation when exporting to the EU. This means an apparel exporter from Macedonia can import fabrics from Turkey for his apparel production and export the garments to the EU under the preferential conditions of a Free Trade Agreement.



# Rules of Origin

## ***Rules of Origin in practice: exports of garments from Moldova to the EU***

The Moldovan situation is different.

Under the present ATPs, a European importer can import garments (made of Turkish fabrics), produced by Moldovan CM(T) manufacturers without paying import duties. This, however, requires some additional effort, since the fabrics first have to be imported by the European importer in order to give these fabrics the duty free EU origin status.

Then, these fabrics can be sent to the Moldovan manufacturer, who can export the finished apparel back to the European importer with no duties to be paid.

This results in extra costs and longer lead times.

With diagonal cumulation in place the fabrics can be imported directly into Moldova by Moldovan apparel producers, who can then still benefit from free access to the EU when exporting their apparel products.

Diagonal cumulation in the case of Moldovan apparel (made from Turkish fabrics) exports to the EU market will only work once the three partners are interlinked through a triangular set of preferential agreements. This means an effective DCFTA between the EU and Moldova (effective as of now) but also the implementation of a FTA between Turkey and Moldova (final stage of negotiations).



# Rules of Origin

*Rules of Origin in practice: exports of garments from Moldova to the EU*

*Why is diagonal cumulation important for the exports of Moldovan apparel to Europe?*

*(1) Increased price competitiveness on the European market with diagonal cumulation for Moldovan apparel brands.*

When a Moldovan company buys fabrics or accessories, an import tax has to be paid. This increases the cost price of a ready-made garment. On fabrics imported from Turkey to Moldova an import tax is imposed of 0 to 10%, depending on the fabric type.

On top of that, the EU imposes import duties of 12% when the garment is exported to Europe when non-Moldovan or non-European fabrics are used for the garment.

With diagonal cumulation in place, no import duties will be imposed when fabrics and accessories from Turkey are used for the production of the garment.

This can add up to a 18% lower end consumer price and can make the difference for a Moldovan brand to be successful on the European market or not.



# Rules of Origin

*Rules of Origin in practice: exports of garments from Moldova to the EU*

*Calculation schedule Moldovan brands using Turkish fabric exported to EU and impact on end-consumer price*

	No diagonal cumulation	No diagonal cumulation	With diagonal cumulation in place	With diagonal cumulation in place
RMG lingerie set price	10*	10*	9,50	9,50
Transport, handling, insurance 7%	0,70	0,70	0,67	0,67
Import duties 12%	1,28	1,28	N/A	N/A
Wholesaler's margin 25%* *	3,00		2,54	
Retailer's margin 100%**	16,48	13,18	13,98	11,18
- Net selling price	31,46	25,17	26,68	21,35
Value Added Tax 21% of net selling price***	6,61	5,28	5,60	4,48
- Gross selling or consumer price	38,06	30,45	32,29	25,83

*\*) RMG price depending on product and on import duties imposed on fabric/accessories from Turkey*

*\*\*\*) Margins differ depending on activity. The mark-up differ per wholesaler and retailer*

*\*\*\*) In this calculation the VAT tariff valid for The Netherlands is used, note that this tariff varies per EU country.*



# Rules of Origin

*Rules of Origin in practice: exports of garments from Moldova to the EU*

*(2) Increased lead-time competitiveness on the European market with diagonal cumulation for Moldovan CM(T) producers*

A shorter lead-time is one of the most important reasons for European buyers to choose for production in Eastern Europe. Presently, when Turkish fabrics are involved, the lead-times for orders in competing Eastern European countries are much shorter than those in Moldova.

When diagonal cumulation is in place for Moldova, fabrics can be sent directly from Turkey to Moldova. This will shorten the lead-time of an order produced in Moldova up to 2 weeks.





# Rules of Origin

***Rules of Origin in practice: exports of garments from Moldova to the EU***

***In sum: diagonal cumulation could spur the overall competitiveness of Moldovan apparel exports***

Overall, the impact of diagonal cumulation between Moldova, Turkey and the EU would be beneficial to Moldovan garment manufacturers and exporters. It would facilitate Moldovan brands to enter the European market because of the reduced product price when using Turkish fabrics. As no import duty is imposed on the fabrics and materials when imported in Moldova, and no import duty needs to be paid when the final product is imported in Europe.

This is particularly important for CM-CMT manufacturers of (fashion) outerwear, as it would increase their chances to expand business to Europe. European retailers with a focus on fast fashion indicate that diagonal cumulation would be an additional reason for them to explore Moldovan production possibilities.

If they would be able to ship their Turkish fabrics directly to Moldova it would shorten the lead-time of their orders with nearly 2 weeks and reduces the cost price because of less transport costs.





*Thank you for  
your attention!*

Any questions?

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