

**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 ?

Which are the WTO members using a CTC requirement?

Country / group of countries	Using CTC requirements	How its used
European Community (EBA)	<ul style="list-style-type: none"> • YES, as stand alone or as alternative to a percentage criterion 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • YES, as stand alone or as alternative or in addition to a percentage criterion 	<ul style="list-style-type: none"> • CTH is main criteria • List rules: <ul style="list-style-type: none"> - CTH with single or multiple exceptions - CTC with single or multiple HS chapter exclusions - CTC and percentage criterion
Canada	<ul style="list-style-type: none"> • NO, CTC not used in GPT • CTC extensively used in FTAs 	<ul style="list-style-type: none"> • In FTAs CTC is used extensively as the main origin criteria for product-specific rules of origin
United States GSP and AGOA	<ul style="list-style-type: none"> • NO • CTC extensively used in FTAs 	<ul style="list-style-type: none"> • Same as above

Which are the WTO members using a CTC requirement?

Country / group of countries	Using CTC requirements	How its used
Eurasian customs union	<ul style="list-style-type: none"> • No 	<ul style="list-style-type: none"> • Not applicable
China	<ul style="list-style-type: none"> • Yes, as alternative rules to percentage criterion 	<ul style="list-style-type: none"> • Simple CTH is the criteria • No exceptions
India	<ul style="list-style-type: none"> • Yes, CTC used in addition to percentage criterion (30% value addition using the subtraction method) 	<ul style="list-style-type: none"> • Simple CTH is the criteria • No exceptions
South Korea	<ul style="list-style-type: none"> • No, CTC is not used 	<ul style="list-style-type: none"> • 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?



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

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)

09	Coffee, tea, mate and spices.
0901	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion.
090111	Not decaffeinated (roasted)
090112	Decaffeinated (roasted)
090121	Not decaffeinated (not roasted)
090122	Decaffeinated (not roasted)
090190	Other

Recommendations

- 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.