

The importance of cumulation for meeting rules of origin.

Introduction and Background.

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The Hard truth about loss of cumulation.

Business is generated and gained through Duty Free Exports. Roo for duty free for some products can only be met with cumulation.

Customers don't suddenly agree to pay an additional 14% duty – they will often move those products to alternative sources. (Indonesia, Taiwan)

There is a direct correlation between levels of duty and sales, when duty conditions improve as they did in 2010, so did our sales – when duty free was lost for certain models business decreased.

The Cumulation roller coaster



2006 – Full Cumulation within the ASEAN region and EU. Business takes off

ROO was that no more than 40% of non-originating materials could be used.

The only way we could reach this was with CUMULATION

We took full advantage of 'Regional cumulation' as a member of the Asean regional group

Sourcing: Malaysia, Singapore, Vietnam, Thailand, Indonesia, Philippines

The Cumulation roller coaster



2010 - An additional breakthrough for business

In 2010 the GSP regulation was amended (regulation 1063-2010) – this new regulation increased the allowance of non-local content for Bicycles 8712 from 40% to 70% which was a huge help for us in Cambodia and one could say a turning point for the business. In addition, the rule was set to be in place for 10 years which was longer than previously and gave a certain amount of certainty for investment.

The Cumulation roller coaster



2013 – Cumulation with Singapore and Malaysia Ending – Business falls, on the prospect of losing duty free.

In 2013 a revision was made to the regulation which 'clarified' the commissions position of graduation.

Clarification meant we cannot cumulate with countries which have graduated from GSP its unclear exactly why, but the effect on sales was detrimental.

2014 – Cumulation with Malaysia regained through Derogation – Business needs to be regained.

In 2013 the Cambodian producers, along with the Royal Government of Cambodia wrote to the commission to request a 'derogation' (or a temporary exemption) from a particular effect of a new regulation,

The commission granted the derogation in late 2014 (**Regulation 822/2014**) For Malaysia only. 3 Years Derogation was granted, and extended for a further 3 years in 2016.

The Cumulation roller coaster



2013 – CANADA - Cumulation with multiple GPT countries appears lost due to Graduation, Business in Canada falls on the prospect of losing duty free.

In 2013 Canada published a new GSP regulation – SOR/2013-165. In this regulation it was announced that several countries which were previously classed as GPT were being graduated OUT of GPT status. Several countries we relied upon for cumulation were included.

2015 – CANADA – Cumulation re-instated by the use of Schedule 2 of the new regulation – Business needs to be regained.

In 2013, Lobbying efforts to Canada were addressed and in 2014, when the final version was published starting Jan 2015 it had changed the wording for LDC countries that they could cumulation from remaining GPT countries and IN ADDITION, we could CUMULATE from countries which were listed in Schedule 2 ('EX' GPT countries)

The Cumulation roller coaster



2022 – Cumulation from Vietnam appears lost due to FTA with EU – Business falls, on the prospect of losing duty free.

A new FTA was agreed between EU and Vietnam, whilst the FTA may be a great step forward for both EU and Vietnam bilateral trading, the result for Cambodia was catastrophic, as once the FTA was completed- then Vietnam would become ineligible for GSP and excluded from CUMULATION.

2023 – Extended cumulation with Vietnam granted – Business needs to be regained.

Cambodia Industry and Royal Cambodia Government teamed up once again to approach the EU, and this time we applied for 'extended cumulation' between Cambodia and Vietnam. 'extended cumulation' with Vietnam was granted to Cambodia in September 2023 (community decision 2023-1810).

The Cumulation roller coaster



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2013 – Cumulation with Singapore and Malaysia Ending – Business falls, on the prospect of losing duty free.

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2013 – CANADA - Cumulation with multiple GPT counties appears lost due to Graduation, Business in Canada falls on the prospect of losing duty free.

2015 – CANADA – Cumulation re-instated by the use of Schedule 2 of the new regulation – Business needs to be regained.

2022 – Cumulation from Thailand and Vietnam appears lost – Business falls, on the prospect of losing duty free.

2023 – Extended cumulation with Vietnam granted – Business needs to be regained.

The Cumulation roller coaster



Summary:

This experience shows that CUMULATION can mean a make or break situation when your sales and competitiveness is dependent on meeting the rule of origin.

As a producer who escaped the loss of cumulation 3 times now in some 10 years or so, it really feels like a roller coaster and puts investors in LDC countries in a very vulnerable position. We would encourage all authorities to find a way to add some consistency to the use of cumulation to protect LDC production.

OR as an alternative consideration - a change in the PSRO in favour of LDC's could lead the way forward to eliminating the need for cumulation altogether, HERE ARE 2 VERY RECENT EXAMPLES.

The alternative to cumulation

UK DCTS:

Following Brexit it was the job of the UK to come with its own version of GSP and policy for LDC countries – they published the DCTS (Developing country trading scheme) in 2023. For Bicycles the PSRO for Least Developed countries were given 2 options:

1. Use of Non-eligible content to a limit of 75% (Previously under EU was 70%) (Nairobi MC10 2015- b) Consider, as the Preference-granting Members develop or build on their individual rules of origin arrangements applicable to imports from LDCs, allowing the use of non-originating materials up to 75% of the final value of the product)
2. Second option was the use of CTH for LDC's. Change of Tariff heading. (Nairobi – MC10 2015) As a general principle, allow for a simple change of tariff heading or change of tariff sub-heading

Option 1 reduced the need for cumulation. Option 2 eliminated the need completely.

Very simple way to meet the rule of origin and very simple for Authorities simplified.

(*value limits on parts from countries with ADD continued to prevent circumvention, and simple assembly rules apply)

The alternative to cumulation



CANADA:

Another example is back to our friends in CANADA, where a similar GSP scheme operates to the EU, with the exception of graduated countries continuing to be eligible as local – but their scheme allows for different methods of calculation like Build up/build down for example, it also allows for things like ‘intermediate product’ to be included.

The Canada rule has been a 60% limit on non-originating content – and of the remaining 40% half of that could be cumulated with GPT countries and those listed in schedule 2.

2024, Canada has published in draft form a new regulation (**2023-210**) which comes into effect in January 2025, which removes the need for 20% cumulation leaving us to just find 20% Cambodia content. **80% non-originating materials allowed.**