

# Customs Guides

RULES OF ORIGIN



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# About this Guide

- This is one of a series of three Guides to help businesses understand Rules of Origin, Tariffs and Customs Declarations in the event of a No-Deal Brexit.
- The Guides are focused on practicalities and helping businesses to understand the actions they need to take.
- In the Guides you will learn what these concepts are, how they might apply to you, and how they may be different in the event of a No-Deal Brexit.
- The Guides provide you with an overview, with links to more detailed information on the British Chambers of Commerce [website](#).
- If you have any specific questions [please get in touch](#) with your local Accredited Chamber of Commerce that can provide expert help in trade facilitation matters.
- This information is correct on 22 October 2019.

## EXECUTIVE SUMMARY

### 1 What is origin and what role does it play in international trade?

Origin is the economic nationality of the product. Each imported and exported product has an origin. Rules of origin help to determine where the goods are from.

### 2 How does origin affect importers and exporters?

Non-preferential origin rules are used for a number of purposes such as determining what trade policy measures apply to imported goods. Preferential origin rules are used under trade agreements to determine whether the goods are eligible for preferential discounted tariffs.

### 3 What are the current requirements/rules in the UK?

The UK is currently a member of all EU's trade agreements and uses the same rules of origin as the EU.

### 4 What will change in the event of a No-Deal Brexit?

After the UK leaves the EU, it will cease to be a party to the EU's trade agreements. UK companies will lose preferential tariff access to these markets and vice versa. New sets of rules of origin will be published by the Government for any new deal that is signed.

# What are rules of origin and what role do they play in international trade?



Every year, more than £12 trillion worth of goods are traded amongst the world's nations in nearly every language on the globe. How do customs and regulatory authorities know where the goods are coming from in order to impose the applicable duty or product standards?

“Origin” can be understood as the economic nationality of the goods. All internationally traded goods are required to have an origin when they are declared to customs at the point of import and at the time of export.

The question “where are your products from?” seems simple at first glance, but what does it really mean? Is it where the goods were produced, or where they were shipped from? And if the goods were manufactured in several different countries, where is the cut-off point? Rules of origin enable customs to answer similar questions and enable them to determine the origin of goods.

# Rules of origin in more detail

## There are two different types of rules of origin

### 1. Non-preferential rules of origin.

Each internationally-traded product has a country of origin. Non-preferential rules of origin are used to determine where the product comes from. Non-preferential origin is used for a number of purposes such as determining what trade policy measures apply to imported goods (for example quotas, anti-dumping and countervailing duty). It is also used for trade statistics and for the purpose of labelling. Each country establishes its own non-preferential rules and these are based on two main principles:

- **Wholly obtained:** products obtained entirely in the territory of one country without the addition of any non-originating materials.
- **Last substantial transformation:** in a case where more than one country was involved in the production of the goods, the country where the last substantial transformation took place determines the origin of the goods.

### 2. Preferential rules of origin.

Preferential rules are used to determine origin under trade agreements. They help to establish whether the product qualifies for the preferential tariff (reduced duty rate) under the trade deal.

There are a series of requirements that goods traded under a free trade agreement need to comply with in order to be eligible for preferential duty rates. Preferential rules of origin are set under each trade agreement – they differ for each trade deal. However, in principle, there are a few main ways in which preferential rules of origin can be established:

- **Wholly obtained:** products obtained entirely in the territory of one country without the addition of any non-originating materials.
- **Substantial transformation:** requires the product to undergo a certain processing in order to be considered originating. This can be based on one of three principles:
  - a. Change in tariff classification:** a rule that requires non-originating materials to have undergone a change to tariff classification in order to obtain originating status ([please see the British Chambers of Commerce Tariff Guide](#)).
  - b. Value-added calculations:** a rule that requires a certain percentage of the total value of the final product to be added.
  - c. Specific processing:** a rule that requires that a specific processing be undertaken at a particular stage of the production process.

# How does origin affect importers and exporters?

**The origin of goods needs to be declared on a customs declaration each time goods are imported or exported ([see the British Chambers of Commerce Customs Declarations Guide](#)).**

Declaring origin will be particularly important when importing goods. When there is a preferential trade deal in place, preferential origin is declared to obtain a reduced rate of duty. In the absence of a trade agreement, non-preferential origin needs to be declared to ensure that appropriate trade policy measures are applied.

Declaring an incorrect country of origin may lead to non-compliance or even be considered fraud. For example, if the product imported from China is subject to anti-dumping duty but the duty is not paid because the importer declares it as originating in India, this would be viewed as an attempt to avoid tax. The exporter/producer is responsible for determining the origin of goods and providing proof of origin when requested by the importer; however it is the importer who is liable if the origin is incorrect.

Non-preferential origin is confirmed by a Certificate of Origin which can be obtained from [Chambers of Commerce across the UK](#). A Certificate of Origin is not mandatory and, in most cases, it is enough to declare non-preferential origin.

Preferential origin is certified in a number of ways, depending on the text of the agreement. Preferential certificates take

the form of EUR1 or FORM A documents, or an exporter declaration by an approved exporter on the REX system. A preferential origin certificate must be submitted as part of import documentation in order for the company to be able to profit from preferential duty rates.

In many cases, the exporter is not the manufacturer of at least some, if not all, of the parts/inputs used to produce the final goods. In such cases, the exporter is required to confirm the origin of these parts/inputs with their supplier.

For importers, relying on the exporter's origin determination can be risky. While the proof of origin is provided by the exporter/producer, it is the importer who is legally liable for the correctness of information provided to customs authorities at the time of import. If a preferential proof of origin is rejected by customs for any reason, the importer will have to pay the full duty rate.

**Related origin requirements:** Establishing origin also depends on various other terms and administrative requirements being satisfied. These include conditions around record-keeping, invoicing and transport of the goods. Exporters must also be familiar with all these additional, origin-related requirements. Your local Chamber of Commerce can advise you on this process.

# What are the current requirements in the UK?

## **The UK currently applies EU origin rules.**

The EU's non-preferential rules of origin are defined in internationally agreed protocols.

The EU's preferential rules of origin are attached to all EU trade agreements in the form of annexes or protocols. The UK is currently a party to all EU's free trade and preferential trade agreements ([see the full list here](#)). This gives UK businesses access to a number of markets on preferential terms and vice versa. Preferential rules of origin for the EU's unilateral preference programme for developing and least developed countries, Generalised Scheme of Preferences, can be found in the Union Customs Code.

The UK also applies the EU's origin requirements in terms of origin certification and other requirements related to origin, such as record-keeping, period of validity/invoicing and transport requirements for originating goods.



# What will change in the event of a No-Deal Brexit?

In the event of a No-Deal Brexit, the UK will immediately lose access to all the EU's trade agreements. Therefore, businesses will no longer comply with the current rules of origin for preferential trade agreements as the UK will no longer have access to trade preferences.

The UK Government has signed a number of "continuity" agreements which would ensure the continuity of trade with the existing FTA partners (e.g. Chile, Switzerland and Faroe Islands, and an Economic Partnership Agreement with Eastern and Southern Africa countries). A list of "continuity" agreements signed to date can be seen [here](#). Negotiations of other agreements are ongoing. Some countries, for example, Japan, Turkey and Canada have stated that a "continuity" agreement will not be signed before 31 October 2019.

It is uncertain which of these agreements will enter into force on 1 November 2019 as they are subject to ratification by all parties. When ratified and implemented, these agreements will include sets of preferential rules of origin with which all products traded under these agreements will need to comply. These rules of origin have not yet been published but it is expected that they will be identical to the ones in the current EU agreements with these countries.

Some of the agreements allow for cumulation of origin with the EU. This means that inputs and processing undertaken in the EU will still count towards UK origin for exports into the "continuity" agreements partners and vice versa. The EU has not confirmed whether or not it will adopt a similar approach.

UK businesses may, under some circumstances, be required to provide a non-preferential certificate of origin to prove that the goods have been primarily produced in the UK. The UK Government will publish a UK version of the non-preferential origin certificate and Chambers of Commerce have worked closely with Government to prepare for this scenario.

For the latest information please visit the [Brexit Hub](#) on the British Chambers of Commerce website.





## How do I find out more information about this?

Accredited Chambers of Commerce can be found in every region and nation of the UK, providing your business with on-the-ground support. [Click here](#) to find out more.



FOR MORE INFORMATION ON NO-DEAL PREPARATIONS VISIT  
[WWW.BRITISHCHAMBERS.ORG.UK/PAGE/BREXIT-HUB](http://WWW.BRITISHCHAMBERS.ORG.UK/PAGE/BREXIT-HUB)

