

## **RULES OF ORIGIN**

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#### **Background**

Rules of origin are the criteria needed to determine the economic nationality of a product for the purposes of international trade. These are important because alongside the value and the tariff classification of the goods, the duties or trading restrictions applied to products depend upon the country in which a product is deemed to have originated. Knowing where a product has originated from is essential in determining which trade rules (for example the tariffs contained in a bilateral trade agreement or multi-lateral agreement) should apply when importing or exporting a product. Rules of origin, therefore, have a key role to play in facilitating the application of trade policy instruments.

There is no globally accepted template to determine whether a product originates from a particular country. Each country can apply its own rules of origin scheme which creates the problem of differing standards of proof for products being imported and exported between differing countries.

The two most common bases upon which countries determine whether a product has originated in a particular country are: (i) where the goods are 'wholly obtained' (the product does not incorporate materials of any other country); and (ii) the location where the 'last, substantial transformation' took place (applies to products produced with materials of other countries or was partially processed abroad).

There are two common types of rules of origin, preferential and non-preferential. Preferential rules of origin only apply where there is a specific preferential trading arrangement in place (for example an FTA or a customs union). In such cases, the goods attract the agreed tariff preferences beyond those established by the WTO MFN [Most Favoured Nation] commitments (namely entry at a reduced or zero rate of duty). It follows that non-preferential rules of origin can be used for the purpose of determining quotas, anti-dumping and anti-circumvention measures, statistical analysis and origin labelling.

As the UK is a member of the EU Customs Union, rules of origin do not need to be considered when exporting or importing from the rest of the EU. Rules of origin directly relate to tariffs, therefore consideration of rules of origin and tariffs are currently only required at the point the product crosses the external customs border of the EU. Therefore, if a good is produced within the bounds of the EU, it will be deemed "EU content" for the purposes of third countries as their rules of origin schemes should apply to the EU as a whole and not individual Member States.

#### **Impact of the UK's withdrawal from the EU**

##### ***Trade with the EU***

Depending on the nature of the UK's new trading relationship with the EU, it is possible that new rules of origin will have to be developed to identify goods that have come to the UK from the EU and vice versa.

Under these circumstances, it would be reasonable to expect rules of origin to be agreed so as to facilitate the application of tariff concessions. Irrespective of how generous the tariff set under the terms of such a trade agreement, the necessary introduction of rules of origin will result in new administrative costs.

**57.5%** of UK  
built cars are  
exported to the EU,  
with an average  
value of  
**£20,900**

Currently, British businesses seeking to comply with rules of origin set in existing free trade agreements have to take a number of steps to provide proof that goods originate in the UK. The precise steps vary depending on the markets involved, but will likely include checking the status of the goods in question with the customs authority of the country they are exporting to, completing any relevant paperwork to prove that imported goods are of preferential origin, proving to HMRC that preferential arrangements apply to goods being exported or imported; and securing Binding Origin Information.

Given the extent to which UK automotive is integrated with supply chains that run right across the EU and that nearly 60% of UK built cars are exported to the EU, the requirement of certificates of origin in relation to trade with the EU could result in significant new administrative costs.

### ***Trade with Third Countries***

Should the UK secure continuing access to the preferential trading terms of already agreed EU FTAs, it should follow that existing rules of origin remain in place. However, for this to occur, UK content will have to be considered to be EU content for the purposes of those trade deals.

Should the UK not secure such access or choose to negotiate new free trade agreements with third countries, it will have to negotiate new rules of origin. This should be done on a case-by-case basis and in close consultation with the automotive sector. Where the UK is negotiating new trade agreements with third countries that the EU has a free trade agreement with, it should consider including the 'diagonal cumulation of origin principle'. This would allow goods originating in the UK and those originating in the EU to be considered as originating content. This is critical given the integrated nature of automotive sector's supply chain. Existing EU FTAs require approximately 55% EU content if a finished vehicle is the benefit from the preferential terms of trade with a third country. Were new trade deals signed by the UK to require 55% UK content in a finished vehicle, a significant change in the supply chain would be needed. Vehicles produced in the UK currently contain approximately 44% UK content. This represents a growth in UK content in recent years but is still a long way from the 55% that would be required to enjoy preferential treatment under future trade deals.

### **UK Automotive Priorities**

- The application of the diagonal cumulation of origin principles when the UK negotiates new trade deals with third countries.
- Ensure that the administrative costs associated with any new rules of origin (in particular in relation to trade between the UK and the EU) are kept to a minimum.
- Cooperation between government and industry in establishing any new rules of origin.

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