

JOINT CUSTOMS CONSULTATIVE COMMITTEE (JCCC)

INFORMATION PAPER (05) 37

Tariff preferences: Use of Cumulation provisions within “Pan-Euro-Mediterranean” countries.

Who should read:	All involved with importing / exporting using the Tariff Preference regime
What is it about:	Advance information about the widening of the scope of existing pan-European cumulation provisions when importing / exporting under preference
When effective:	Possibly the late summer of 2005 – precise date not yet known

1. Introduction

This Paper provides **advance information** about the introduction - possibly from the late Summer of 2005 (the precise implementation date is not yet known) - of a new Pan-Euro-Mediterranean (Pan-Euro-Med) system of cumulation in relation to preferential origin.

Cumulation within preferential trade agreements is an additional facility that helps manufactured goods to meet their relevant origin rule(s) and therefore make it easier to claim any preferential rates of duty that may apply.

This works by forming countries in groups or zones and by allowing manufacturers to count materials originating in certain other countries as if they originated in the country of manufacture when incorporated into a product made there.

A fuller explanation can be found in Customs Notice 828. Pan-Euro-Med falls within the description of “diagonal” cumulation of origin.

N.B. The first point to clarify at this stage is that any cumulation provisions that are currently in operation in the bilateral preferential trade Agreements between the European Community and the Mediterranean Countries will remain extant and will not be affected by the new system.

This means for example, that you will still be able to export fabric which has originated in the Community in accordance with preferential rules of origin (or qualifies for export under the full cumulation arrangements described in Notice 828) to Morocco for cut, make and trim and import the finished garment under preference claiming Moroccan preferential origin

However, the European Community has decided in the context of Pan-Euro-Med to extend the use of the diagonal cumulation arrangements which are currently available for the Pan-European Countries (The European Community, Bulgaria, Romania, Norway, Iceland, Switzerland (including Liechtenstein) and Turkey) to its Mediterranean partners. It has also been agreed that Turkish agricultural products can be included in these arrangements (these products are currently excluded from Pan-European cumulation).

This effectively increases the number of countries from which manufacturers will be able to regard materials as originating. (A full list of the countries which can potentially benefit from the arrangement can be found in **Appendix 1**).

In order for this to work in practice, all countries involved have to conclude Free Trade Agreements (FTAs) with each other, with such agreements containing identical rules of origin.

However, while a complete network of FTAs between the Pan-European and Mediterranean Countries is the long-term aim of the Community, it has been decided that the implementation of these new Cumulation provisions should be enacted at the earliest possible date to enable traders to benefit as soon as possible. In other words, the scheme will go "live" for certain countries before such time as all countries within the group/zone have signed Free Trade Agreements with each other (Para 2 (ii) refers).

A new Form – C1300 (EURMED Certificate) is being produced as proof of origin under the new arrangements. When available (it is still being printed) it can be ordered in the normal way through the Customs National Advice Service. There will also be a new EUR Med invoice declaration for those exporters who are approved (please see Para 2 (vi) for further information). Specimens of the EUR MED Certificate and invoice declaration can be found in **Appendix 6**.

2. How will Pan-Euro-Mediterranean Cumulation work in practice?

The following terms and specific principles in the Pan-Euro-Med cumulation arrangement are explained (with appropriate examples in the attached Appendices) in order to help you to decide whether this extended form of Cumulation is right for you.

i) Allocation of Origin - In general, the country of origin of the final product will still be determined by reference to the place where the "last working or processing" was carried out – so long as the operations concerned were more than minimal (please see Notice 828 for a list of minimal operations in the context of the "Europe" Agreements which will be extended to Pan-Euro-Med cumulation). If, in the country of final manufacture, the originating materials from one or more of the other countries in the Pan-Euro-Med zone are not subject to more than minimal working or processing, the origin of the final product will be allocated to the country contributing the highest value. With this in mind, the value added in the country of final manufacture is compared with the value of materials originating in each of the other countries involved.

In addition, if any imported materials are subject to no working or processing whatsoever, they will simply retain the origin of the country of the Pan-Euro-Med zone from which they were imported. That origin will have to be declared on the appropriate proof of origin when they are subsequently exported to another country in the zone. (**See Appendix 2 for examples**).

ii) Variable Geometry

A new term! Not all countries in **Appendix 1** have yet concluded the necessary Free Trade Agreements with each other.

Pan-Euro-Med cumulation can only be applied if the countries of final manufacture and of final destination have concluded Free Trade Agreements with all of the

countries in the zone which have participated in the acquisition of originating status- ie with all of the countries which have supplied originating (in accordance with preferential rules of origin) materials, components or parts.

Materials originating in a country in the zone which has not yet concluded a Free Trade Agreement with the countries of final manufacture/final destination must be treated as non-originating (**see Appendix 2 for examples**).

iii) Cumulation of Working / Processing (Full Cumulation)

Full Cumulation allows for any working / processing carried out in one country to be "carried forward" to the country where the final product is manufactured - and effectively for that 2nd country to count the processing as if it was performed there.

Such Cumulation will be outside the scope of Pan-Euro-Med cumulation, however it will remain a feature of the current bilateral preferential arrangements between the EC and Morocco, Algeria and Tunisia. Consequently, any final products obtained by using materials that have utilised this facility must again be regarded as non-originating (**see example at Appendix 3**) for the purposes of Pan-Euro-Med cumulation of origin.

iv) Drawback (IPR)

Prohibition of the claiming of Drawback (in, or example, Inward Processing (IPR) arrangements) is a common feature of most preference agreements (Customs Notice 827 refers) and it will be included in Pan-Euro-Med cumulation.

This means that where such a restriction applies, all customs duties and equivalent charges must be paid on any materials, components or parts imported to manufacture a finished product on which preference will be claimed.

"No drawback" is currently a feature in the agreements between the EC and Bulgaria, Romania, Norway, Iceland, Switzerland, Liechtenstein and Israel. But it is not a requirement in the current bilateral Agreements between the EC and other Pan-Euro-Med countries.

This could potentially have an effect on a manufacturer's ability to use Pan-Euro-Med cumulation. A final product incorporating materials on which drawback has been claimed must be treated as non-originating and it cannot be exported under the cumulation arrangements to another country in the zone. (**see example at Appendix 4**).

v) Use of standard EUR Certificate (C1299) / new EUR-MED Certificate (C1300).

The new EUR-MED certificate can only be issued where a product has met all conditions for acquiring preferential origin under the Pan-Euro-Med cumulation arrangements. In short, the product must not have acquired originating status on the basis of full cumulation; include materials which have been subject to drawback; or which have originated in a country within the zone which does not have a Free Trade Agreement with the final country of manufacture or country of destination.

a) Optional use of Certificates EUR1 and EUR-Med.

In some cases the ultimate destination of a product within the Pan-Euro-Med zone will not be known at the time of the initial export.

For example, you export a product to a customer in Switzerland who subsequently decides to sell it on to customer in Morocco. To overcome this problem a Movement certificate EUR1 or EUR-MED can be issued by any country in list A or B in Appendix 1 where the product has obtained originating status without the use of any cumulation arrangement.

Additionally, an optional EUR-MED certificate can be issued where all conditions for Pan-Euro-Med cumulation have been met – ie the product you are exporting has not obtained preferential origin on the basis of full cumulation and it does not include materials on which drawback has been allowed. **(see Appendix 5(a) for examples)**

b) Mandatory use of Movement Certificates EUR1 – A Form EUR1 must be used if the final product qualifies for preference (under existing bilateral arrangements) in its country of destination **but** during the production process either full cumulation (with Morocco, Tunisia or Algeria) has been applied or Drawback has been used – **(Example (1) at Appendix 4 refers)**.

c) Mandatory use of Movement Certificates EURMED – A Movement Certificate EUR MED must be used when an originating product which has met the conditions for Pan-Euro-Med cumulation:

- has been manufactured in the Community or a Pan-European country from materials originating in one of the Meds countries in Appendix 1b or
- has been manufactured in a Meds country from materials originating in the Community or other Pan-European country in Appendix 1B

The name(s) of the Country/country's concerned must be inserted in Box 7. Any failure to do this could cause problems at a later stage if there was a need to re-export the product **(see Appendix 5 (b))**.

vi) Invoice Declarations

Approved exporters in the Community, Pan-European or Mediterranean countries can use an EUR MED Invoice Declaration in place of the EUR MED certificate. The wording/format of an Invoice Declaration is the same as that currently used with one exception. The following alternatives must be added (as they appear in Box 7 of the EUR MED Certificate)

- **Cumulation applied with (name of country/countries)
- **No Cumulation applied
- (**delete as appropriate)

3. Who has signed up with who?

While the European Community has concluded the necessary Free Trade Agreements with the MED countries, most of the other countries in the Pan Euro-Med zone have still to conclude Free Trade Agreements with each other.

The European Commission will produce a Matrix (Table) showing the state of play of these Agreements.

Once published – this Matrix will be posted on the HMRC Website and any changes will be advised by way of JCCC Information Papers.

As soon as Pan Euro-Med cumulation is formally implemented, then you will need to refer to the Matrix to establish whether a Pan Euro-Med proof of origin can be issued (please see Para 2 (ii) above).

N.B. The European Commission has given assurances that this list will be kept up to date.

4. Responsibilities of Importers/Exporters

a) Importers

Notice 826 (Tariff Preference Imports) reminds importers of their responsibility to check that their goods meet the rules for preferential treatment.

In the case of Pan-Euro-Med cumulation, you will additionally have to check with suppliers that goods covered by a EUR-MED proof of origin have met the conditions for the use of such a document (eg no drawback of customs duties or full cumulation has been applied).

In addition, it must be confirmed that if the supplier has taken advantage of the new cumulation provisions, then the necessary Free Trade Agreements are in place between the relevant countries.

These checks are particularly important if the goods concerned are going to be exported to a Pan-Euro-Med partner (Appendix 1b) either in the same state or included as part of the material content of a final product to be exported.

b) Exporters

If you are an exporter, then you may have to obtain a Suppliers Declaration (Notice 827 – European Community Preferences – Export Procedures) before you issue a EUR-MED proof of origin.

In addition to confirming that the relevant origin rule has been met, the Declaration must be adapted/enhanced to confirm that the product has satisfied the conditions for Pan-Euro-Med cumulation (ie that it does not include materials, components or parts on which drawback of customs duties has been allowed, and it has not acquired originating status on the basis of full cumulation).

Any Declaration should also state whether cumulation has been used to manufacture a product – and if so with which countries.

5. Further information

Information about the date of implementation of the arrangements between the first set of countries and the availability of EUR MED certificates will be provided in due course.

In the meantime, if you require any further information, please contact CITG, 6th Floor North, Portcullis House, 27 Victoria Avenue, Southend-on-Sea, Essex, SS2 6AL. Telephone: 01702 361959 E-mail nicholas.clappen@hmrc.gsi.gov.uk

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JCCC Secretary, HM Revenue and Customs, LG 74, 100 Parliament Street, London, SW1A 2 BQ.
Tel. 020 7147-0617. E-mail Ian.Tucker@hmrc.gsi.gov.uk

Appendix 1.

1a

EC

Bulgaria

Romania

Norway

Iceland

Switzerland

Liechtenstein

Turkey

1b

*Algeria)

*Morocco) ***MAGHREB**

*Tunisia)

**Egypt)

Jordan) **MASHRAQ**

**Lebanon)

**Syria)

West Bank/Gaza

Israel

Appendix 2

a) Allocation of Origin via last working or processing (Para 2 (i))

Fabric (T/H 5122) originating in the EC is exported to Morocco, along with linings of man made staple fibres originating in Switzerland. The final product made in Morocco is Suits of Heading 6203.

The last working or processing is carried out in Morocco, so as this is beyond minimal, the suits attain Moroccan origin.

The question of whether these suits can have preferential origin into the EC will ultimately depend on whether Switzerland and Morocco have a formal Free Trade Agreement.

b) Allocation of Origin if the last working or processing does not go beyond minimal (Para 2 (i))

The different parts of an outfit originate in 2 countries and are packed in the EC. The trousers and Skirt originate in Norway (180 Euros), while the Jacket originates in Romania (100 Euros). The minimal "packing" operation is carried out in the EC. The Ex-Works price of the final product is 330 Euros.

As the operations carried out in the Community are minimal, the value added there has to be set against the customs values of the materials used. In this instance the final product will therefore have Norwegian origin

c) Allocation of origin for products exported without undergoing additional working or processing (Para 2 (ii))

A carpet which has EC preferential origin is exported to Morocco and is then (without any further operations) exported to Syria after a year. The carpet does not change origin, but a preferential proof of origin can only be issued from Morocco to Syria if the appropriate free trade agreement between the EC and Syria is in place.

Appendix 3

Cumulation of Working or Processing

Non-originating Cotton Yarn (T/H 5205) is imported into Tunisia, where it is woven into fabric (T/H 5208). This Tunisian fabric is then exported to the EC, where men's shirts (T/H 6205) are produced.

According to the provisions of full cumulation (Para 2 iii), the weaving in Tunisia can be considered as having been carried out in the EC. This in turn would allow the finished shirts to claim EC originating status.

However, in this example preferential origin only applies between the **Maghreb** countries (see Appendix 1b) and the EC. The use of the full cumulation provisions means that the Pan-European cumulation requirements are not met and the products would be classed as non-originating going to any other country in Appendix 1.

Appendix 4

a) Prohibition of Drawback in "bilateral" trade

Aluminium originating in the United Arab Emirates is imported into Egypt where aluminium screws (T/H 7616) are made and exported to the EC – using a standard Preference Certificate.

As Egyptian origin is attained on the basis of sufficient working / processing (and no cumulation is involved), then the Egyptians can use Drawback on the imported materials without affecting the originating status of the screws.

However, as Drawback is involved, then the screws cannot be used in the EC for the purpose of Pan-Euro Mediterranean cumulation.

In this example the screws originating in Egypt can therefore only be exported to the EC with a standard EUR1 Certificate / Invoice Declaration.

b) Prohibition of Drawback in "diagonal" trade

Oranges from Costa Rica (T/H 0805) and sugar originating in the EC (T/H 1701) are imported into Jordan, where orange juice (T/H 2009) is produced. The value of the EC originating sugar exceeds 30% of the ex-works price. The Jordanian originating product is then exported to **Egypt**.

Since the origin of the final product is obtained in Jordan on the basis of cumulation with one of the countries in Appendix 1a (the EC), the non-originating materials cannot be subject in Jordan to any drawback/exemption from customs duties.

In this example, the Jordanian originating product can only be exported under preference to Egypt (or from Egypt to other countries) with a EUR-MED Certificate/Invoice Declaration.

Appendix 5

Use of different Certificates of Origin

a) Optional Use of EUR1 / EUR MED Certificates

An **EUR1** Movement Certificate can be issued when products concerned are originating in the exporting country and cumulation is limited to countries in **Appendix 1a** (and Turkey).

Example 1

Sugar originating in the EC (T/H 1701) is imported into Switzerland, where it is processed into sweets (T/H1704). This Swiss originating product is then exported to Turkey.

Since the originating status is obtained in Switzerland on the basis of cumulation without using a "Mediterranean partner", and since Switzerland and Turkey have a Free Trade Agreement, then the Swiss authorities may issue an EUR1 Movement Certificate to Turkey.

However, a EUR-MED Certificate can also be issued by the Swiss authorities if the sweets are to be used in Turkey in the context of cumulation with any of the countries in Appendix 1 – eg Tunisia. In such a case, the EUR-MED Certificate should be endorsed "**Cumulation applied with the EC**".

Example 2

Embroidered curtains (T/H 6303) are manufactured in Lebanon from non-originating single yarn. The final product is then exported to the EC.

Since the acquired originating status is obtained in Lebanon on the basis of sufficient working / processing, and no cumulation was used, then the Lebanese may issue an EUR1 Movement Certificate to the EC.

However, a EUR-MED Certificate is also possible so long as the drawback/duty suspension conditions have been respected. This would allow the re-exportation of the curtains to any of the countries listed in Appendix 1. In such cases, Box 7 of the EUR-MED Certificate would need to be endorsed "**No Cumulation applied**".

b) Mandatory use of EUR1 / EUR MED Movement Certificates

A Movement Certificate EUR1 must be issued when originating products do not satisfy the criteria for utilising the cumulation provisions with the countries in Appendix 1b (except Turkey).

For example, this can happen when either duty suspension (drawback) or full cumulation (EC / Algeria / Morocco / Tunisia) is applied.

On the other hand a Movement Certificate EUR MED must be issued when the products concerned originate in the exporting country and cumulation has been applied with any of the countries in Appendix 1a (except Turkey).

Examples

Cumulation applied with materials originating in one of the Mediterranean countries

1) Fabric originating in Egypt (T/H 5112) is imported into Norway where Trousers (T/H 6103) are manufactured. Originating status is obtained in Norway by way of cumulation with imported materials from Egypt. Therefore when the final product is exported to the EC. The Norwegian authorities must issue a EUR MED Movement Certificate containing the statement "**Cumulation applied with Egypt**" in Box 7.

Cumulation applied in one of the Mediterranean countries

2) Norwegian wooden boards (T/H 4407) cut to size are imported into Morocco where wooden boxes are manufactured (T/H 4415). Moroccan originating status is obtained on the basis of cumulation in a country in Appendix 1a. Therefore when the final product is exported to the EC, then Moroccan Customs must issue a EUR-MED Certificate containing the phrase "**Cumulation applied with Norway**" in Box 7.

Appendix 6

MOVEMENT CERTIFICATE

1. Exporter (Name, full address, country)	EUR-MED No A 000.000		
See notes overleaf before completing this form.			
2. Certificate used in preferential trade between and (Insert appropriate countries, groups of countries or territories)			
3. Consignee (Name, full address, country) (Optional)	4. Country, group of countries or territory in which the products are considered as originating	5. Country, group of countries or territory of destination	
6. Transport details (Optional)	7. Remarks <input type="checkbox"/> Cumulation applied with (name of the country/countries) <input type="checkbox"/> No cumulation applied. (Insert X in the appropriate box)		
8. Item number; Marks and numbers; Number and kind of packages; Description of goods	9. Gross mass (kg) or other measure (litres, m³, etc.)	10. Invoices (Optional)	
11. CUSTOMS ENDORSEMENT <i>Declaration certified</i> Export document FormNo Of Customs office Issuing country or territory Stamp Place and date (Signature)	12. DECLARATION BY THE EXPORTER I, the undersigned, declare that the goods described above meet the conditions required for the issue of this certificate. Place and date (Signature)		

THE INVOICE DECLARATION EUR-MED

The exporter of the products covered by this document (customs authorization No ...⁽¹⁾) declares that, except where otherwise clearly indicated, these products are of ...⁽²⁾ preferential origin.

- cumulation applied with (name of the country/countries)
- no cumulation applied⁽³⁾

4

.....
(Place and date)

5

.....
(Signature of the exporter, in addition the name of the person signing the declaration has to be indicated in clear script)

¹ When the invoice declaration is made out by an approved exporter, the authorization number of the approved exporter must be enter in this space. When the invoice declaration is not made out by an approved exporter, the words in brackets shall be omitted or the space left blank.

² Origin of products to be indicated. When the invoice declaration relates in whole or in part, to products originating in Ceuta and Melilla, the exporter must clearly indicate them in the document on which the declaration is made out by means of the symbol "CM".

³ Complete and delete where necessary

⁴ These indications may be omitted if the information is contained on the document itself.

⁵ In cases where the exporter is not required to sign, the exemption of signature also implies the exemption of the name of the signatory.