

JOINT CUSTOMS CONSULTATIVE COMMITTEE JCCC

INFORMATION PAPER (06) 03

Tariff Preferences: Use of Cumulation Provisions within “PanEuro-Mediterranean” countries.

Who should read:	All Traders involved with importing/exporting using the Tariff Preference regime
What is it about:	Implementation of the Pan-European cumulation provisions when importing/exporting under preference
When effective:	Specific dates in Annex 1 refer.

1. Introduction

JCCC Paper (05) 37 provided advance information on the introduction of this new scheme.

2. What Now

The European Commission has confirmed (**Official Journal C18 – 25 January 2006**) that the new cumulation provisions are now in force with effect from the dates shown for those countries that have signed free trade agreements with each other.

To this end, Section 3 of JCCC Paper (05) 37 stated that the European Commission would produce a Matrix (Table) showing exactly who has signed agreements with whom. This Matrix is reproduced at **Annex 1** of this Paper. It can also be accessed via Official Journal C18 on the European Commission’s website at www.europa.eu.int/eur-lex/lex/JOIndex.do?ihmlang=en and will be updated on a regular basis.

In practical terms this means, for example, that providing all conditions are met a UK company can now claim a preferential rate of duty on goods imported from Switzerland which have been manufactured in that country on or after 1 July 2005 from materials, components or parts originating in Israel, and which are covered by a EUR-MED proof of preferential origin issued in Switzerland on or after 1 January 2006.

3. Origin Rules

For **all** those countries that are now signed up, the origin rules to be applied are those contained in Sections 6 and 7.6 of Customs Notice 828.

4. Turkey

We are aware that many UK importers are interested in importing under preference products (particularly garments) from countries such as Morocco and Tunisia which have been manufactured in those countries from materials originating in Turkey.

It will be seen from Annex 1 that there is a gap in the Matrix in relation to any Agreement between Turkey and the EC.

We have sought confirmation from the relevant European Commission authorities as to what effect - if any – this would have on those traders wishing for example, to send Turkish fabric to Morocco for making into garments for ultimate export to the EC.

The Commission has confirmed that in the above example Morocco can issue EUR-MED Certificates for such exports (stating cumulation applied with Turkey) under these extended cumulation provisions.

With the exception of coal and steel, all products in Chapters 25 to 97 of the Tariff are covered by the special trade arrangements in the Customs Union between the European Community and Turkey. Consequently, there is no need for, and there never will be a separate Free Trade Agreement (FTA) for the products.

Therefore, it can be seen from the Matrix that, subject to all conditions being met, a UK company can now claim a preferential rate of duty on goods imported from Morocco which have been manufactured in that country on or after 1 January 2006 from materials, components or parts originating in Turkey, and which are covered by a EUR-MED Movement Certificate or EUR-MED invoice declaration issued in Morocco on or after 1 January.

UK companies can now export materials originating in Turkey to Morocco for inclusion in a finished product for export to the Community under preference. However, before the necessary EUR-MED proof of origin can be issued in the UK for the export, you must hold a Suppliers Declaration issued by your Turkish supplier confirming that the materials concerned meet the Pan-Euro-Med cumulation rules.

5. Tunisia

JCCC Paper (05) 57 provided information on a derogation from the rules of origin that allowed for a certain quantity of garments manufactured in Tunisia from Turkish originating fabric to be exported to the EC under Preference.

This derogation will remain in place for the time being as the EC has not yet adopted the revised origin protocol in its agreement with that country which provides for Pan-Euro-Mediterranean cumulation of origin.

6. Faroe Islands

Please note that with reference to Appendix 1b of JCCC Paper (05) 37, the Faroe Islands should be added to this list of countries in the Pan-Euro-Med cumulation zone.

7. What else do I need to know?

Traders need to be aware of a particular issue that has arisen which has recently been considered by the EC's Origin Committee in relation to the "No Drawback" provisions.

The potential difficulty arises because under this new system of cumulation, a product can acquire originating status in 2 ways:

- a) Cumulation – One country in the "zone" exports an originating material. component or part to another in the group. Under the **Diagonal Cumulation** (Notice 828 – Section 2.14) arrangements the 2nd country can treat the imported materials, components or parts as if they had originated in its own country – this helps the finished product to meet the origin rules for export under preference to a 3rd country in the "zone".

Under the Pan-Euro-Med system the materials used to manufacture the imported component or part must not have been the subject of drawback in the 1st country and that country must have a Free Trade Agreement in place with the ultimate country of destination of the finished product – ie the 3rd country in the "zone".

- b) Under the Origin Rules themselves – In this case, the 2nd country imports materials, components or parts from the first country and sufficiently processes them so that they meet the origin rules in their own right – ie it imports wood from the 1st country and transforms it into a table - the table therefore meeting the Change of Tariff Heading origin rule.

The rule would still have been met if the wood were imported from a country outside of the zone. Consequently, the table has acquired originating status on the basis of sufficient working or processing, not on the basis of cumulation of origin. As a result, it can be argued that the Pan-Euro-Med cumulation requirements (ie No Drawback or FTA in place) do not have to apply to the exported materials, components or parts – even though they have been exported from another country in the zone.

The current considered opinion of the European Commission on this scenario is that any material, component or part, included in a product under Pan-Euro-Med cumulation, with the result that materials included in the component or part must not have been the subject of drawback in the 1st country and that country must have an FTA with the ultimate country in the zone. However, this matter is the subject of ongoing discussions and the situation could change in the future.

8. Notices

Notices 826/827 and 828 will be amended to take account of these changes as soon as possible.

9. Further Information

If you require any further information, then please contact the Tariff Preference Import/Export Team, Frontiers, 6th Floor North, Portcullis House, 27 Victoria Avenue, Southend-on-Sea, Essex SS2 6AL (Telephone 01702 361959) nicholas.clappen@hmrc.gsi.gov.uk

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