



**Asia-Pacific
Economic Cooperation**

2009/CTI2/CTI-MAG/TPD/004

Session 3

Canada's Approach to Cross-Cumulation

Submitted by: Canada



**Trade Policy Dialogue on Rules of Origin
Singapore
21 May 2009**



Canada's Approach to Cross-Cumulation

Jean-Marc Gionet

Department of Foreign Affairs and International Trade

Types of Cumulation

- **Cumulation (Bilateral - 2 FTA partners)**
 - Originating inputs from country A count toward the originating status of goods produced in country B when exported to country A (Accumulation)
- **Cumulation (Regional/Multi-Party - 3 or more FTA partners)**
 - One set of product specific rules of origin between all Parties
 - Production by one or more producers in one or more Parties all count towards the originating status of the final good
 - Input imported from a non-Party must undergo sufficient production within the FTA territory to qualify as originating



Types of Cumulation

- **Diagonal Cumulation – (3 or more FTA partners)**
 - All partners have FTAs containing identical rules of origin
 - Only originating products or materials benefit from diagonal cumulation
 - Originating inputs from country A count toward the originating status of goods produced in country B when exported to country C, D ...

3




Cross-Cumulation

Cross Cumulation (3 or more partners)

- Countries have FTAs with compatible cross-cumulation provisions
- Identical rules of origin not required
- Creation of an expanded Free Trade Area encompassing all participants
- Originating inputs and all production within the Free Trade Area counts toward the originating status of goods
- Does not require that materials from one participating country acquire originating status before they are used in further production in another participating
- Originating inputs from country A count toward the originating status of goods produced in country B when exported to country C, D ...

4



Evolution of Canada's Approach

- NAFTA (1994) accumulation of originating inputs and all production undertaken within the NAFTA territory
- CIFTA (1997) – provides for limited unilateral cumulation
- Around 2003 Canada began researching different approaches to cumulation
- Canada opts for full cross-cumulation due to the simplicity and comprehensiveness of this approach

5



Expanding The Free Trade Area

- The Canadian approach creates an expanded free trade area
- *“... where each Party has a trade agreement that, as contemplated by the WTO Agreement, concerns the establishment of a free trade area, with the same non-Party, the territory of the non-Party shall be deemed to form part of the territory of the free trade area established by this Agreement, for purposes of determining whether a good is an originating good under this Agreement.*”

6

Limiting Cross-Cumulation

- Some FTA partners may want to limit the application of cross-cumulation
- *A Party shall apply paragraph 3 (cross-cumulation) only once provisions with effect equivalent to those of paragraph 3 are in force between each Party and the non-Party with which each Party has separately concluded a free trade agreement. Where such provisions in force between a Party and the non-Party apply to only certain goods or under certain conditions, the other Party may limit the application of paragraph 3 to those goods and under those conditions and as otherwise set out in this Agreement.*

7

Example – Coaxial Cable

- Countries A, B and C have cross-cumulation, establishing a free trade area
- Assume that the rule of origin for coaxial cable between B & C requires a heading change, except from stranded copper wire.

<u>Country</u>	<u>Action</u>
A	Imports copper bars from outside the free trade area
A	Processes the bars into stranded wire
A	Exports the wire to country B, inside the free trade area
B	Uses the stranded wire to produce coaxial cable
B	Exports coaxial cable to country C

- Without cross-cumulation the coaxial cable would not satisfy the rule of origin
- With cross-cumulation, the production of the stranded wire in country “A” would count towards determining whether or not the coaxial cable meets the rule of origin applicable between B and C.
- Non-originating copper bars were transformed into coaxial cable within the free trade area, thereby satisfying the rule of origin for these goods

8

Example – Automobiles

- Countries A, B and C have cross-cumulation, establishing a free trade area
- Assume that the rule of origin for automobiles between B & C requires that a value threshold be met

<u>Country</u>	<u>Action</u>
A	Imports materials from outside the free trade area
A	Manufactures automotive components using originating and non-originating materials
A	Exports the components to country B, inside the free trade area
B	Uses the components and other originating materials to produce automobiles
B	Exports automobiles to country C

- Under full cross-cumulation the value test between countries B and C will be satisfied by taking into consideration the production undertaken on materials in countries A and B.

9

Benefits

- **Build linkages between otherwise independent FTAs**
- **Cross-cumulation can advance regional integration efforts in the Americas and Asia**
- **Support Canadian participation in global value chains**
- **Create more sourcing options for Canadian manufacturers**
- **Stimulate trade in intermediate goods**
- **Mitigates the “spaghetti bowl” effect**

10



Canada's Perspective

- **Full cross-cumulation is trade-liberalizing**
- **No new or additional customs procedures required**
- **No changes to certificates of origin required**
- **The exporter or producer that completed the certificate of origin is responsible for providing documentation to substantiate the origin of the good.**
- **Canada's cross-cumulation text allows for limitations on certain goods or under certain conditions**

11



Progress To Date

- **Canada's FTAs with Colombia and Peru include cross-cumulation**
- **Cross-cumulation has been favourably received in recent negotiations**
- **Some existing FTA partners considering adding cross-cumulation**
- **Cross-cumulation to be reviewed under Canada-EFTA FTA within 4 years**

12



Questions?

Jean-Marc Gionet

Deputy Director

Bilateral Market Access Division

Department of Foreign Affairs and International Trade

Ottawa, Canada K1A 0G2

(613) 943-8818

Jean-Marc.Gionet@international.gc.ca

Thank you!