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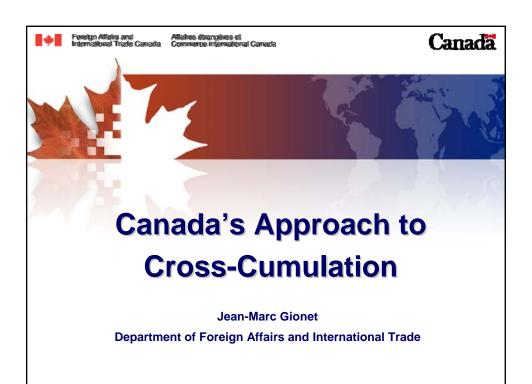
Session 3

Canada's Approach to Cross-Cumulation

Submitted by: Canada



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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



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 ...

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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 ...



- 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

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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.



- Some FTA partners may want to limit the application of crosscumulation
- 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.

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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 cooper wire.

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

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- 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

| Country | Action |
|---------|--|
| Α | Imports materials from outside the free trade area |
| A | Manufactures automotive components using originating and non- originating materials |
| Α | Exports the components to country B, inside the free trade area |
| В | Uses the components and other originating materials to produce automobiles |
| В | 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.

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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



- 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

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Progress To Date

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

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Questions?

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Thank you!

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