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Harmonizing Rules of Origin

Submitted by: Cisco Systems, Inc



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Harmonizing Rules of Origin

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Key Issues

- Complex web of Free Trade Agreement rules of origin are difficult for companies to comply with
- For some companies, investment to create a manufacturing footprint and IT systems to support compliance with the rules of origin outweighs the benefits.
- However, some companies with narrow margins such as consumer electronics are motivated to participate in FTAs because tight margins necessitate fierce cost-cutting.

Key Issues, cont.

- More companies would take advantage of FTAs if:
 - rules were harmonized;
 - compliance was easier to achieve;
 - compliance could be managed systemically
 - synchronized with other FTAs.

Potential Direction

- WTO attempted to harmonize non-preferential rule of origin, and encountered fierce debate
- However, a single, harmonized rule of origin would facilitate trade, increase use of regional FTAs
- APEC efforts to harmonize are a great first step toward global harmonization
- Which rule is the best basis for harmonization? There are pros and cons to each approach.
 - Substantial transformation
 - Tariff Shift
 - Value Add
 - Tariff Shift & Value Add

Substantial Transformation

- Change in name, character and use
- Pros
 - Well-known standard, intuitive, product specific
 - Standard acknowledges breadth of differences among products
- Cons
 - Rules are imprecise, interpretation of what constitutes substantial transformation differs among countries
 - Difficult to quantify
 - Challenge to execute systematically

Tariff Shift

- Pros
 - Clear rule, easy to execute
 - Easily manipulated to fit an economy's needs
- Cons
 - Tracking of component COs and classifications is extraordinarily burdensome for manufacturers; many manufacturers do not have visibility to this data
 - Tariff was not designed to differentiate between partially manufactured and fully manufactured goods, particularly in high tech products
- Example: In some cases the printed circuit board and the finished product are in the same tariff heading and therefore fail the tariff shift requirement

Value Add

- Pros
 - None
- Cons
 - Tracking component values through global supply chain is extraordinarily difficult; values are ever changing
 - Difficult for authorities to monitor compliance

Tariff Shift & Value Add

- Pros
 - None
- Cons
 - Qualification requires extraordinary amount of unit specific data at the component level
 - In an ever changing global supply chain this requires qualification on a product-by-product unit-by-unit basis

Alternative Approaches

1. Substantial transformation
 - Focused on where finished manufactured product is completed
2. Tariff shift with allowance for substantial transformation within a subheading in cases where a product is substantially transformed but no tariff shift occurs.

Benefits of Harmonization

- Streamlines processes
 - Compliance
 - Systems
 - Supply chains

Thank you.

