



REPUBLIC OF THE PHILIPPINES
TARIFF COMMISSION

Rules of Origin: Primer

1. **What are Rules of Origin?**

Rules of Origin (ROO) are sets of principles to determine the economic content and nationality of a product. They are used to ascertain the origin of a good, i.e., not where the good has been shipped from, but where the good has been deemed to have been produced or manufactured. Other uses of ROO include:

- To implement measures and instruments of commercial policy, such as anti-dumping duties and quotas;
- To determine whether imported products shall be subjected to MFN or preferential treatment;
- For purposes of trade statistics and issuance of certificate of origin;
- For the application of labelling and marking requirements;
- For public procurement; and
- For process patent.

2. **What are the two (2) types of Rules of Origin?**

- a. Non-preferential ROO – used to implement measures and instruments of commercial policy, such as quotas, anti-dumping, safeguards, subsidy, anti-circumvention, trade statistics, origin labelling, and marking.
- b. Preferential ROO – used to establish whether a product is qualified for preferential tariff treatment. They are an integral component of international trading arrangements, whether regional or bilateral, under specific Free Trade Areas (FTAs), in order to avoid transshipment.

3. **What is Country of Origin?**

Country of origin refers to the country where a product is obtained, produced or manufactured.

Some products clearly originate in a given country. But in today's world characterized by global production chains, other manufactured goods not only use materials originating from other countries but also undergo processing or assembly in multiple countries.

4. **What are the two (2) basic criteria in determining the country of origin of a good?**

- a. Wholly Obtained. As the term implies, wholly obtained good refers to a product occurring naturally within a country and to a good made entirely from said product. For this type of good, origin is obviously derived from the country from which the good is obtained. The following categories of products are considered wholly obtained in the exporting country¹:
 - i) Agricultural products harvested there;
 - ii) Animals born and raised there;

¹ As in the case of ASEAN Trade In Goods Agreement - ROO

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- iii) Products obtained from animals referred to (ii) above;
 - iv) Products obtained from hunting or fishing;
 - v) Products obtained of sea fishing and other products taken from the sea by its vessel;
 - vi) Products made on board its factory ships exclusively from the products referred to in (v);
 - vii) Mineral products extracted from its soil or its seabed;
 - viii) Used articles collected there fit only for the recovery of raw materials;
 - ix) Waste and scrap resulting from manufacturing operations conducted there; and
 - x) Products obtained there exclusively from the products specified in (i) to (ix) above.
- b. Substantial Transformation. This requires that a good be transformed into a new and different article having a distinctive name, character or use. Under the rule, a good is a product of the country where it last underwent substantial transformation.

5. What are the three (3) major rules applied in substantial transformation?

- a. Regional Value Content (RVC) Requirement. Value added can be expressed either as a minimum value added content expressed in percentage of total product cost; or a maximum allowable cost percentage assigned to the value of imported material including those of undetermined origin.
- b. Change in Tariff Classification Criteria. This includes:
- Change of Chapter (CC) - implies that for origin to be conferred, the non-originating material used to produce a good should be classified outside the HS Chapter (2-digit level) where the final good whose origin is being determined is classified.
 - Change of Tariff Heading (CTH) - connotes that to obtain origin, the non-originating material used to produce a good should have been classified in a tariff heading (4-digit level) outside the heading where the good under consideration is classified. Changes between the subheadings of the main heading where the good is located will not confer origin under this rule.
 - Change of Tariff Subheading (CTSH) - suggests that to obtain origin, the non-originating material used for the good under consideration must come from a different subheading (6-digit level) other than the subheading, within the same heading, where the good in question is located.
 - Change of Tariff Heading Split - same implication as change in tariff heading except that an existing HS heading is (split) into two or more subheadings.
 - Change of Tariff Subheading Split - same effect as change in tariff subheading except that an existing subheading is (split) into two or more tariff lines.
- c. Specific Process Rule (SPR). Some goods are required to meet special product-specific rules in the exporting FTA Party. In many cases, these rules specify a process that must be undergone in order for a good to be considered originating.

6. What are the two (2) methods used in the determination of RVC?

- a. Direct/Build-up Method. The sum of the value of originating materials, overhead cost and profit is divided by the free-on-board value of the finished product.
- b. Indirect/Build-down Method. The sum of the value of non-originating imported materials, parts and components including those of unknown origin is divided by the free-on-board value of the finished good.

7. How does the “accumulation rule” apply in the determination of RVC?

Products which comply with origin requirements and are subsequently used in an FTA Party as inputs for a finished product eligible for preferential treatment in another FTA Party shall be considered as products originating in the FTA Party where working or processing of the finished product has taken place. There are two (2) types of accumulation, namely:

- a. Full accumulation – accumulation of the full value of the product from a party in an FTA territory
- b. Partial accumulation – parties are allowed to accumulate inputs with other member countries to hurdle the ROO criterion. Tariff preference is given to the final exporting country.

8. In the determination of regional value content, what are considered indirect materials, accessories and spare parts, and packaging materials or containers? How are they treated?

- Indirect materials, e.g., fuel; tools, dies and moulds; lubricants, greases, compounding materials and other similar goods; gloves, glasses, footwear, clothing, safety equipment and supplies for any of these things; and catalysts and solvents, are inputs used in the production, but do not form part of a good. These materials are considered originating regardless of origin.
- Accessories, spare parts and tools imported with originating goods will be treated as originating regardless of their actual origin if: (i) the accessories, spare parts and tools are not invoiced separately from the originating good that they are imported with; and (ii) the quantities and value of the accessories, spare parts and tools is customary for the imported good.
- Packaging materials or containers. If goods are packaged for retail sale, and the packing material or container in which the goods are packed for retail sale is classified with the goods in accordance with Harmonized System (HS) General Rule of Interpretative 5, then the packaging material or containers are not required to meet the change in tariff classification requirement of the product specific rule that the originating good has to meet. However, the costs of these materials and containers would be added in case the RVC is applied.

9. What are the other rules that may be applied in determining the country of origin?

- a. Exception Rule. This prohibits a tariff shift from a particular classification, e.g., RVC (40) or Change in Tariff Heading, except from 4809 under the ASEAN-Australia-New Zealand FTA (AANZFTA).

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- b. Alternative Rule. Would confer origin under two different circumstances, e.g., wholly obtained or change from youth to maturity (live horses).
 - c. Supplementary Rule. There are requirements, which could be in terms of production process or characteristics of the final product, which are imposed in addition to another rule in order to complete the conferment of origin for a particular good.
 - d. Residual Rule. This is to cover those goods to which the specific rules will not apply.

10. What is “de minimis” in Rules of Origin?

An FTA may incorporate a *de minimis* provision that allows a good to qualify as an originating good provided that the total value of all non-originating materials which do not satisfy the change in tariff classification requirement does not exceed a set percentage of the free-on-board value of the final good, usually ranged from 7%-15%.

11. What are the processes that do not confer origin?

Regardless of criterion used to confer origin, the following operation/s are considered to be insufficient working or processing that does not confer originating status to a product:

- a. Operations to ensure the preservation of products in good condition during transport and storage (drying, chilling, adding salt, etc.);
- b. Simple operations consisting of sifting, sorting, classifying or matching, washing, painting or cutting up;
- c. Changes of packing and breaking up and assembling of consignment;
- d. Simple slicing, cutting, and repacking or placing in bottle, flasks, bags, boxes and all other simple packing operations;
- e. Affixing of marks, labels or other like distinguishing signs on products or their packaging;
- f. Simple mixing of products;
- g. Simple assembly of parts of products to constitute a complete product;
- h. Combination of two or more operations specified in (a) to (f); and
- i. Slaughter of animals.

12. What is a Certificate of Origin?

- Declaration of the exporter, as certified by the issuing authority (the Bureau of Customs, or BOC, in the case of a Philippine exporter), that the export product complies with the origin requirement as specified under a bilateral, regional, or multilateral trading arrangement.
- In the same way that a passport is an evidence of the nationality of a person, a Certificate of Origin (CO) is an evidence of the economic nationality of a product that must be presented by a Philippine importer to BOC for them to avail of the preferential tariff rates.
- There are two (2) kinds of CO, namely:
 - a. Non-Preferential Treatment:
 - ✓ CO for General Merchandise: White CO

b. Preferential Treatment:

- ✓ Generalized System of Preferences (GSP): Form-A
- ✓ ASEAN Trade in Goods Agreement (ATIGA): Form-D
- ✓ ASEAN-Australia-New Zealand Free Trade Area (AANZFTA): Form-AANZ
- ✓ ASEAN-China Free Trade Area (ACFTA): Form-E
- ✓ ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEPA): Form-AJ
- ✓ ASEAN-India Free Trade Area (AIFTA): Form-AI
- ✓ ASEAN-Korea Free Trade Area (AKFTA): Form-AK
- ✓ Philippines-Japan Economic Partnership Agreement (PJEPA): Form-JP

13. What are the implications of origin conferment to industry?

Implications of origin conferment include: (i) cheaper input cost; (ii) price advantage on export; and (iii) wider market access.