

**RESEARCH PAPER**

**Rules of Origin in EU Free Trade Agreements**

**By**

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When two or more countries form a free-trade area (FTA), they agree to eliminate duties on substantially all merchandise trade **“originating”** in that area but retain complete control of their trade relationships with other countries. FTA agreements are commonly known as free trade agreements. Many are “comprehensive” in the sense that they also cover trade in services, trade-related aspects of intellectual property and other aspects of trade relationships between countries.

**“Rules of origin”** are required to determine whether an individual product has originated in a free-trade area. They specify the minimum level of processing or manufacture that every merchandise category that would otherwise be subject to tariffs must have undergone to qualify for duty-free trade. The need for rules of origin in free trade agreements was first recognised in 1958 when the UK and other countries which would eventually form the European Free Trade Association (EFTA) were in talks about an FTA with the nascent European Economic Community (now the EU). Carefully negotiated rules of origin lay at the heart of the EFTA agreement when it was finally signed in 1960.

The EU has one standard set of rules of origin for both its European Economic Area (EEA) Agreement (1992) with Norway, Iceland and Liechtenstein and also for its free trade agreements with Switzerland, other European countries and certain non-European countries such as Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia. These are contained in HM Revenue & Customs Notice 828 (December 2010), which is available online through Google.

The table on pages 3-8 shows examples from this Notice together with applicable tariff rates for a wide range of tariff lines. Rules of origin are typically expressed in terms of maximum imported content (known as “non-originating materials”) as a percentage of ex-works price, of “sufficient transformation” or of specified processing stages that must have been undergone within the area comprising the EU, the EEA and their FTA partner countries. They are technical in language, complex and often difficult for even experts to understand. The principal technical terms are explained in the Glossary on page 2.

The process of adapting to rules of origin-based duty-free trade under a new UK-EU free trade agreement would be tedious, costly and disruptive to trade. This might be acceptable to many British-owned manufacturers in the context of a return to UK self-government. But the prospect of loss of free movement of goods would probably be unacceptable to a number of important and largely foreign-owned UK manufacturing sectors such as cars, chemicals and processed foods. And it would certainly be unpopular with most continental exporters to the UK.

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## GLOSSARY OF TECHNICAL TERMS

<i>Ad Valorem (AV) Tariff</i>	An Ad Valorem (AV) Tariff is a tariff expressed as a percentage of the invoiced costs of an imported product
<i>Non Ad Valorem (Non AV) Tariff</i>	A Non Ad Valorem (Non AV) Tariff is a tariff expressed as an amount in euros per unit weight of imported product
<i>Tariff Heading</i>	A four digit code (heading in the table below) for a given group of categories of product (e.g. tariff heading 8504: power supply units for automatic data-processing machines) for which an individual EU rule of origin is specified in HMR&C Notice 828. Tariff headings are grouped into individual Chapters of the Notice by their first two digits.
<i>Tariff Line</i>	A six or eight digit code for a given category of product for which an individual tariff rate is specified. Zero tariff rates apply for over half the EU's imports by value
<i>Ex-Works Price</i>	The ex-works price of a product includes the value of all supplied materials used in its manufacture; all costs (material costs as well as other costs) effectively incurred by the manufacturer; and profit.
<i>Non-Originating Materials</i>	Non-originating materials can normally be regarded as raw materials, ingredients, components, parts, etc. which have been imported into the EU or its FTA partner countries for further processing or for inclusion in a finished product. However, the term also applies to any materials used to manufacture a product which does not meet the wholly produced or sufficiently transformed criteria.
<i>Materials</i>	"Material" means any non-originating material unless otherwise indicated.
<i>Originating Products</i>	Originating products are products which have either been "wholly produced" in the EU and its FTA partner countries or which comply with the applicable rules of origin for their tariff headings.
<i>Sufficient Transformation</i>	A finished product is normally considered to have undergone sufficient transformation when it is classified under a different 4 figure tariff heading from those of all the non-originating materials incorporated in that product.
<i>Wholly Produced Products</i>	Products are considered to be wholly produced (or "obtained") in a Member State of the EU or one of its FTA partners if no other country has been involved in their production. The smallest addition of materials or processing in another country will normally disqualify a product from being wholly produced. This means that manufactured products will rarely meet the wholly produced criteria. There is a tolerance for non-originating materials of 10% of the ex-works price of the product in the case of most food products.
<i>Cumulation</i>	Complex rules exist for cumulation of origin where a product finished in one country within the area comprising the EU, the EEA and their FTA partner countries contains materials which originated in, or were partly processed in, one or more other countries within the area. Cumulation may be "bilateral, "diagonal" or "full", as defined in Notice 828 (December 2010).

**TABLE**  
**Illustrative EU Rules of Origin**

The table on this and the next five pages gives EU-FTA rules of origin for a wide selection of product ranges and illustrates their complexity very clearly. The TPRC believes that most businesses involved in UK-EU trade would be very reluctant to adapt to rules of origin based duty free trade in place of free movement of goods.

Chapter of Notice 828	Category of Goods	EU tariff rate	1st Rule of Origin	2nd Rule of Origin
4	Dairy produce, bird's eggs, natural honey, edible products of animal origin not elsewhere specified or included	157 tariff lines bear Non AV duties, ranging from [12.9 €/100 kg/net] to [231.3 €/100 kg/net]. 9 tariff lines bear AV tariffs ranging from zero to 17.3%.	<b>General Rule:</b> Manufacture in which all the materials of chapter 4 used must be wholly produced. <b>1 exception heading. Heading 0403:</b> All goods. Manufacture in which: all the materials used must be wholly produced; <b>and</b> all fruit juice (except that of pineapple, lime or grapefruit) of heading 2009 is originating; <b>and</b> the value of all the materials of Chapter 17 used does not exceed 30% of the ex-works price of the product.	
19	Preparations of cereals, flour, starch or milk: pastry cook's products	47 tariff lines bear Non AV duties ranging from [5.1 + 14.7 €/100 kg/net] to [10.1 + 31.4 €/100 kg/net]. 2 tariff lines bear AV tariffs of 8.5% and 12.8%.	<b>No General Rule.</b> <b>5 different headings. Typical examples: Heading 1902:</b> All goods containing 20% or less by weight of meat, meat offal, fish, crustaceans or molluscs. Rule: manufacture in which all the cereals and derivatives (except durum wheat and its derivatives) used must be wholly produced. All goods containing more than 20% by weight of meat, meat offal, fish, crustaceans or molluscs. Rule: manufacture in which all the cereals and derivatives (except durum wheat and its derivatives) used must be wholly produced and all the materials of Chapters 2 and 3 must be wholly produced. <b>Heading 1905:</b> All Goods. Rule: manufacture from materials of any heading, except those of Chapter 11.	

Note: For chapters and tariff headings where there are two rules of origin in the above table, the exporter can choose to apply either rule.

Chapter of Notice 828	Category of Goods	EU tariff rate	Origin Rule 1 (note)	Origin Rule 2 (note)
28	Inorganic chemicals; organic or inorganic compounds or precious metals, or rare - earth metals, of radioactive elements or of isotopes	249 tariff lines bear AV tariffs ranging from zero to 5.5%.	<p><b>General Rule:</b> manufacture in which: all the materials used are classified within a heading other than that of the product. <b>However</b>, materials classified within the same heading may be used provided their total value does not exceed 20% of the ex-works price of the product.</p> <p><b>4 exception headings. Typical example: Heading Ex 2805:</b> Goods: 'Mischmetal'. Rule: manufacture by electrolytic treatment, or by thermal treatment in which the value of all the materials used does not exceed 50% of the ex-works price of the product.</p>	<p><b>General Rule:</b> manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product.</p>
29	Organic chemicals	5 tariff lines bear non AV duties ranging from [7.7 + 16.1 €/100 kg/net] to [9.6 + 125.8 €/100 kg/net]. 463 tariff lines bear AV tariffs ranging from zero to 6.5%.	<p><b>General Rule:</b> manufacture in which: all the materials used are classified within a heading other than that of the product. <b>However</b>, materials classified within the same heading may be used provided their total value does not exceed 20% of the ex-works price of the product.</p> <p><b>8 exception headings. Typical example: Heading Ex 2901:</b> Goods: acyclic hydrocarbons for use as powder of heating fuels. Rule: operations of refining and/or one or more specific processes.</p>	<p><b>General Rule:</b> manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product.</p> <p><b>Heading Ex 2901:</b> other operations in which all the materials used are classified in a heading other than that of the product. <b>However</b>, materials classified within the same heading may be used provided their total value does not exceed 50% of the ex-works price of the product</p>
30	Pharmaceutical products	45 tariff lines bear AV tariffs at zero %.	<p><b>General Rule:</b> manufacture in which all the materials used are classified within a heading other than that of the product. <b>However</b>, materials classified within the same heading may be used provided their value does not exceed 20% of the ex-works price of the product.</p> <p><b>4 exception headings</b></p>	

Note: For chapters and tariff headings where there are two rules of origin in the above table, the exporter can choose to apply either rule.

Chapter of Notice 828	Category of Goods	EU tariff rate	Origin Rule 1 <i>(note)</i>	Origin Rule 2 <i>(note)</i>
31	Fertilizers	32 tariff lines bear AV tariffs ranging from zero to 6.5%.	<b>General Rule:</b> manufacture in which all the materials used are classified within a heading other than that of the product. However, materials classified within the same heading may be used provided their total value does not exceed 20% of the ex-works price of the product. <b>1 exception heading. Heading Ex 3105</b>	<b>General Rule:</b> manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product
49	Printed books, newspapers, pictures and other products of the printing industry, manuscripts, typescripts and plans	22 tariff lines bear AV tariffs at zero%.	<b>General Rule:</b> manufacture in which all the materials used are classified within a heading other than that of the product. <b>2 exception headings. Typical example: Heading 4909:</b> All Goods. Rule: manufacture from materials not classified within headings 4909 or 4911.	
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	66 tariff lines bear AV tariffs ranging from zero to 8%.	<b>General Rule:</b> manufacture in which all the materials used are classified within a heading other than that of the product. <b>8 exception headings. Typical example: Heading 5106:</b> All Goods. Rule: manufacture from raw silk or silk waste carded or combed or otherwise prepared for spinning.	
52	Cotton	149 tariff lines bear AV tariffs ranging from zero to 8%.	<b>General Rule:</b> manufacture in which all the materials used are classified within a heading other than that of the product. <b>9 exception headings. Typical example: Heading 5204:</b> All Goods. Rule: manufacture from raw silk or silk waste carded or combed or otherwise prepared for spinning.	

Note: For chapters and tariff headings where there are two rules of origin in the above table, the exporter can choose to apply either rule.

Chapter of Notice 828	Category of Goods	EU tariff rate	Origin Rule 1 (note)	Origin Rule 2 (note)
62	Articles of apparel and clothing accessories, not knitted or crocheted	32 tariff lines bear AV tariffs ranging from 6.3 to 12%.	<b>General Rule:</b> Manufacture from yarn. The specified rule is relaxed for the lesser element or elements in yarns containing more than one basic textile material (as defined) provided the total weight of all lesser elements is 10% or less of the total weight of all textile material. <b>10 exception headings. Typical example: Heading 6213:</b> Goods: embroidered. Rule: manufactured from unbleached single yarn.	<b>Heading 6213:</b> manufacture from unembroidered fabric, provided the value of the unembroidered fabric used does not exceed 40% of ex-works price of the products.
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	880 tariff lines bear AV tariffs ranging from zero to 9.7%.	<b>General Rule:</b> Manufacture in which: all the materials used are classified within a heading other than that of the product; <b>and</b> the value of all the materials used does not exceed 40% of the ex-works price of the product. <b>36 exception headings. Typical example: Headings 8469-8472:</b> All goods. Rule: manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product	<b>General Rule:</b> manufacture in which the value of all the materials used does not exceed 30% of the ex-works price of the product.
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers and parts and accessories of such articles	500 tariff lines bear AV tariffs ranging from zero to 14%.	<b>General Rule:</b> Manufacture in which: all the materials used are classified within a heading other than that of the product; <b>and</b> the value of all the materials used does not exceed 40% of the ex-works price of the product. <b>24 exception headings. Typical example: Heading Ex 8504:</b> Goods: power supply units for automatic data-processing machines. Rule: manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product.	<b>General Rule:</b> Manufacture in which the value of all the materials used does not exceed 30% of the ex-works price of the product.

Note: For chapters and tariff headings where there are two rules of origin in the above table, the exporter can choose to apply either rule.

Chapter of Notice 828	Category of Goods	EU tariff rate	Origin Rule 1 (note)	Origin Rule 2 (note)
86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (incl electro-mechanical) traffic signalling equipment of all kinds	29 tariff lines bear AV tariffs ranging from 1.7 to 3.7%.	<p><b>General Rule:</b> Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product.</p> <p><b>1 exception heading. Heading 8608:</b> All goods. Rule: manufacture in which all the materials used are classified within a heading other than that of the product; <b>and</b> the value of all the materials used does not exceed 40% of the ex-works price of the product.</p>	<p><b>Heading 8608:</b> manufacture in which the value of all the materials used does not exceed 30% of the ex-works price of the product.</p>
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof ( <i>This includes Cars, buses, trucks, other types of vehicle and other parts and accessories thereof</i> )	188 tariff lines bear AV tariffs ranging from zero to 22%, including ( <i>including 6-8% tariffs on motorcycles, 10% tariff on cars, 3.5% - 22% tariffs on vehicles designed to carry goods – eg: trucks, lorries etc</i> ).	<p><b>General Rule:</b> manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product.</p> <p><b>6 exception headings. Typical example: Heading Ex 8712:</b> Goods: bicycles without ball bearings. Rule: manufacture from materials not classified in heading 8714.</p>	<p><b>Heading Ex 8712:</b> Manufacture in which the value of all the materials used does not exceed 30% of the ex-works price of the product.</p>

Note: For chapters and tariff headings where there are two rules of origin in the above table, the exporter can choose to apply either rule.

Chapter of Notice 828	Category of Goods	EU tariff rate	Origin Rule 1 (note)	Origin Rule 2 (note)
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	274 tariff lines bear AV tariffs ranging from zero to 6.7%.	<p><b>General Rule:</b> manufacture in which: all the materials used are classified within a heading other than that of the product; <b>and</b> the value of all the materials used does not exceed 40% of the ex-works price of the product.</p> <p><b>24 exception headings. Typical example: Heading Ex 9014:</b> Goods: other navigational instruments and appliances. Rule: manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product.</p>	<p><b>General Rule:</b> Manufacture in which the value of all the materials used does not exceed 30% of the ex-works price of the product.</p>
95	Toys, games and sports requisites; parts and accessories thereof	62 tariff lines bear AV tariffs ranging from zero to 4.7%.	<p><b>General Rule:</b> manufacture in which: all the materials used are classified within a heading other than that of the product; <b>and</b> the value of all the materials used does not exceed 50% of the ex-works price of the product.</p> <p><b>2 exception headings. Typical example: Heading Ex 9506:</b> Goods: golf clubs and parts thereof. Rules: manufacture in which all materials used are classified within a heading other than that of the product. However, roughly shaped blocks for making golf clubs heads may be used.</p>	

Note: For chapters and tariff headings where there are two rules of origin in the above table, the exporter can choose to apply either rule.

Sources: 'HM Revenue & Customs Notice 828, December 2010' for rules of origin; WTO's online 'tariff finder' for tariffs.