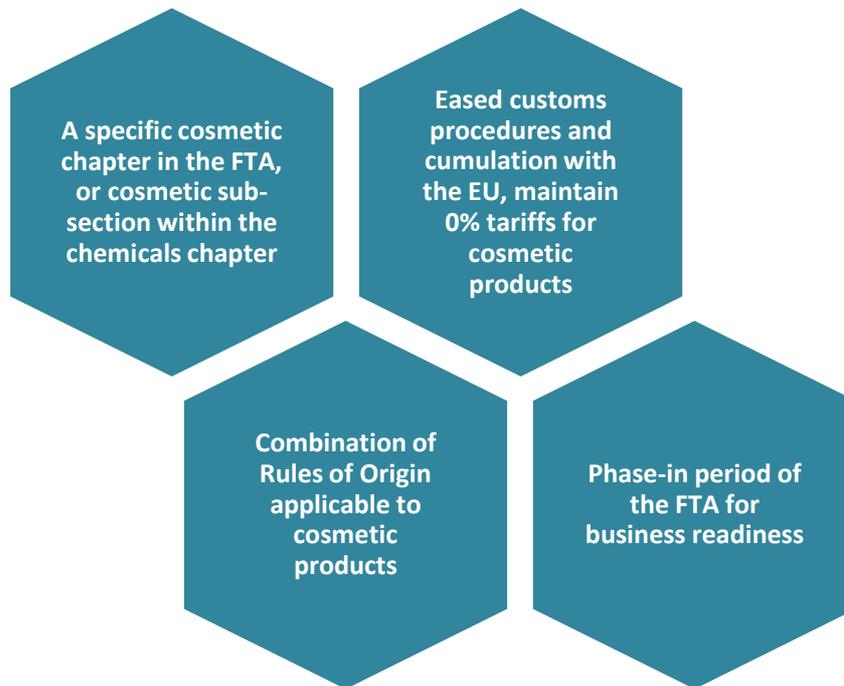


CTPA POSITION PAPER RULES OF ORIGIN FOR THE UK/EU FREE TRADE AGREEMENT

Negotiation Arguments and CTPA Proposal



CTPA held a workshop in September 2019 with members and the Department for Business, Energy and Industrial Strategy (BEIS) to understand which Rules of Origin are best suited for the cosmetics industry in a future UK/EU FTA post Brexit (with or without a deal).

The following table provides detailed information on the outcome of the workshop and explanation of the chosen Rules of Origin for the cosmetics industry.

The workshop allowed attendees to conclude that one standardised chapter for the cosmetics industry would be preferable to explain the rules that apply.

Rule of Origin	Explanation	Example	CTPA Assessment
<p>Change in tariff code (Change of Tariff Heading – CTH – and Change of Tariff Sub-Heading – CTSH) Rule</p>	<p>Origin is determined by the extent to which non-originating inputs have been transformed from one or more tariff headings (and, in some cases, sub-headings) into another. If the rule is at the heading level, it requires a 4-digit tariff shift. If at the sub-heading level, it requires a tariff shift at the 6-digit level (thereby making it more liberal).</p>	<p>A shampoo manufactured in the UK which contains imported (non-originating) ingredients. For example, surfactant A (HS 3402) + surfactant B (HS 3402) + silicone C (HS 3910) are blended and transformed into shampoo D (HS 3305). The manufacturing process delivered a product belonging to a new customs code, which is sufficient to confer country of origin. Some companies may manufacture the product in one country and add other minor components (i.e. colorants, fragrance) in another country, however these minor changes would not affect the customs code of the final product and therefore would not change the country of origin.</p>	<p>This is likely to be the preferred option by the cosmetics industry, providing a bureaucratically less burdensome and straightforward way of obtaining origin.</p> <p>This is also likely to allow EU companies currently manufacturing in the UK and UK companies currently manufacturing in the EU to continue to do so post-Brexit, minimising disruption to their supply chain and business plans; this would also enable manufacturing to be maintained in both areas.</p> <p>This rule will only confer originating status to a good when the final product does not include the same heading or sub-heading as inputs. Some parts of the industry may struggle to comply with this rule where the core ingredient (e.g. the surfactant) shares the same 4-digits heading as the finished product. To mitigate against this and maximise its usefulness, a tariff shift at the sub-heading (6-digit level) would likely be most appropriate for manufacturing cosmetics. If this is not possible, increasing the tolerance (de minimis) clause to 15-20% would help manufacturers meet the rule. This tolerance clause allows a certain percentage (usually 10%) of the</p>

			<p>product to include non-originating inputs of the same heading/sub-heading.</p> <p>Tolerance level can also be determined by weight (as per the EU/Canada FTA) for specific types of products.</p>
Specific Processing Rule	<p>This is a new type of Rule of Origin.</p> <p>Finished products can qualify when particular specific working or processing activities are carried out (e.g. a specific chemical reaction).</p>	<p>Specific processing rules are unique to chemical chapters to allow a third way for products to become originating. The rules list a set of manufacturing processes (such as ‘chemical reactions’) that are common within the industry. If one of these processes has taken place in the manufacturing process of a product in the UK, the product is then automatically UK originating.</p> <p>One of the processes that is considered under this rule is ‘mixing and blending’. For example, if the mixing of ingredients to obtain a shampoo occurs in the UK, the UK will be identified as the country the shampoo is originating from.</p> <p>Other processes can involve specific chemical reactions that could be relevant in the creation of cosmetic ingredients or finished products.</p>	<p>‘Mixtures and Blends’ is the most applicable definition; ‘Chemical reaction’ and ‘change in physico-chemical properties’ may be relevant depending on the type of product.</p>
Value Added Rule	<p>In this case, inputs from other markets may be used, provided they remain</p>	<p>A shampoo is made in the UK using both UK and imported ingredients. To qualify as a local product, the content of imported ingredients must stay below a defined percentage threshold of the product’s final value, or the cost of the local input above a defined share of that value.</p>	<p>This rule can be challenging for businesses to meet, due to complexity in breaking down product value and origin of components.</p> <p>The value of the product will depend on the cost of the ingredients and of the manufacturing/filling/transporting of the product. This will depend a lot on the supply</p>

	<p>below a defined proportion of the final product by value.</p>		<p>chain because ingredients and/or bulk and/or components may cross the UK/EU border many times; a WTO Brexit may add extra costs that could impact how a product qualifies as a local cosmetic, as these factors may impact the final value of the product.</p> <p>Nevertheless, this rule becomes useful to have as an option for obtaining origin, but not a priority when compared to Change in Tariff Code or Specific Processing Rules. It is generally good practice in FTAs to allow for more than one rules of origin to cover multiple scenarios. If steps cannot be taken to liberalise the CTH/CTSH rule then businesses are likely to require this Value Added rule as a fallback. The critical element will be the threshold for local content, which is generally set at 50%. A 60% threshold for maximum non-originating content should be sufficient for UK businesses in a UK/EU FTA. Additionally, the UK could pursue an FTA agenda which pushes for diagonal cumulation where the UK, FTA Partner and EU share a common interest and common agreement.</p>
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