# 5 Rules of Origin methodology

This chapter summarises the methodology used to create the rules of origin figures published in the *Trade & Assistance Review 2012‑13* and replicated below in figure 5.1. The methodology is outlined for the trade agreements Australia has entered into to date with New Zealand, Thailand, the United States, Chile, ASEAN, Malaysia and Korea. The texts for the rules of origin for each agreement are sourced from the Department of Foreign Affairs and Trade (DFAT) website.[[1]](#footnote-1) The general methodology is outlined below while the detailed calculations for individual agreements are in appendix A. The supporting spreadsheets deriving the summary of methods used to determine origin reported in the *Review* (figure 6.1, p. 117) are provided on the web with this Annex.

To support the analysis of methods to determine origin — the rules of origin — the texts for each agreement were downloaded from the DFAT trade agreement website and saved to an Excel spreadsheet. It was not possible to adopt common procedures to summarise rules across agreements due to the:

* complexity of product-specific rules of origin in each agreement and the marked differences between agreements; as well as
* substantial differences in formatting and nomenclature in each of the agreements.

Rather the detailed procedures used to tally the incidence of rules of different types had to be tailored to the texts of the individual agreements. Box 6.6 (p. 115) in the Review illustrates how differences manifest in actual agreements with reference to the tariff item Curtains (including drapes) and interior blinds; curtain and bed valances (HS item 6303). Differences in expression are illustrated by the agreement-specific nomenclatures. While the ASEAN and Korean agreements which use acronyms in rules texts (such as CC which describes a tariff change at the 2-digit chapter level), other agreements use full text descriptors for each origin rule, often involving complex layering of texts. All agreements include, to some extent, rule choices with these typically being expressed differently between agreements.

The rule differences and differences in formatting also mean that the approach to counting the number of rules in each agreement needs to be tailored to the texts. Tailoring is also required to avoid double counting of rules in some agreements, particularly when the rules for a trade item include multiple choices.

Because of the complexity of origin rules in individual agreements, and differences of rules and the expression of them between agreements, there is no single way of summarising rules within and between agreements. The approach adopted for the 2012‑13 *Review* has a number of aspects.

* The individual rules can be expressed at the 2-digit chapter, 4-digit heading, the 6-digit subheading levels or for groupings of tariff line items of the Harmonized System (HS) of international trade items. The counts are made in respect of the items or groups as expressed in the agreement texts. As a consequence, the number of individual rules in any one agreement can be substantial and, moreover, vary between agreements. Individual rules can offer single or multiple choices and each choice can include one or more tests of origin.[[2]](#footnote-2)
* For each rule, rules entailing a change in tariff classification (CTC) test only, a regional value content (RVC) test only, and the choice of either a CTC or RVC test are separately identified. Other rules such as ‘wholly obtained’, technical tests, or CTC and RVC rules are included in the ‘other’ category reported.
* The focus of reporting on the application of the CTC method is on the first component (or choice) of each rule. The reporting indicates whether the CTC test is applied at the 2-digit chapter, 4-digit heading or the 6-digit subheading levels. The reporting includes tests that are CTC only and CTC in combination with another criterion, such as an RVC test or a technical test.[[3]](#footnote-3)

The procedures underpinning the reporting involve performing a *cell count* to determine the total number of rules and then *counting the number of individual rules* that correspond to the rule-types reported. For the left hand panel in figure 5.1, all possible origin rules were separated into four categories — those that involve a change in tariff classification only test (covering changes in tariff classification at the 2-digit chapter, 4-digit heading and 6-digit subheading level); those that involve a regional value content test only; those that involve either a change in tariff classification or a regional value content test; and all other rules. For the right hand panel of figure 5.1, rules that only involve a change in tariff classification were counted. As noted, for rules with multiple components (or choices), the reporting refers to the CTC of the first component. The counts of the application of the CTC method in the first rule were decomposed into three categories — a change at the 2-digit tariff item chapter level, a change at the 4-digit tariff item heading level and a change at the 6-digit tariff item subheading level.

The counts of the incidence of rules of origin, on which figure 5.1 is based, are shown in table 5.1. Figure 5.1 in this Annex corresponds to figure 6.1 in the Review.

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| Figure 5.1 Summary of methods used to determine origin in recent preferential trade agreements with Australiaa,b |
| |  |  | | --- | --- | | Rule for determining origin  Per cent of specified rulesc | Application of CTC methodd  Per cent of CTC-specified rulesc | |  |  | |
| a ‘CTC’ refers to a change in tariff classification test. ‘RVC’ refers to a regional value content rule. ‘Other’ includes, combined CTC and RVC rules, CTC rules with exceptions and specified process tests requiring particular production methods needed to qualify for preferential entry. The figures are slightly different to those published in the *Trade & Assistance Review 2012‑13* due to minor revisions to selected calculations. b The agreement with Singapore is not included as it applies a single three-tiered test of origin. c Individual rules can be expressed at the 4‑digit heading level, 6‑digit subheading level or groupings of tariff line items. d When the Australia-New Zealand CER agreement entered into force in 1983, an RVC rule with a simple technical test was the main rule applied. The revised rules reported replaced that rule and have been in force since 1 January 2007. |
| *Source*: Commission estimates. |
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| Table 5.1 Incidence of methods used to determine origin in recent preferential trade agreements with Australia |
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| a The count of listed rules reported in table 6.1 of *Trade & Assistance Review 2012‑13* corresponds to this Total. Due to processing differences there are very minor variations between the two representations for some agreements.  *Source*: Commission estimates. |
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1. [www.dfat.gov.au/fta](http://www.dfat.gov.au/fta) [↑](#footnote-ref-1)
2. If each alternative in multiple test rules for an individual trade item or group of trade items were counted the ‘number’ of rules for each agreement would be substantially higher than reported. [↑](#footnote-ref-2)
3. The application of the CTC methods in any second (and subsequent) components (or choices) in each rule would differ from the application in the first component and could be tallied separately. [↑](#footnote-ref-3)