# 5 Rules of Origin methodology

This chapter summarises the methodology used to create the rules of origin figures published in the *Trade & Assistance Review 2013‑14* and replicated below in figure 5.1 and supported by table 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, Korea and the latest agreement to enter into force, the Japan-Australia agreement. The texts for the rules of origin for each agreement are sourced from the Department of Foreign Affairs and Trade (DFAT) website. The general methodology is outlined below while the detailed calculations for the Japan–Australia agreement are reported in appendix A. The detailed calculations for the agreements with New Zealand, Thailand, the United States, Chile, ASEAN, Malaysia and Korea were reported in last year’s methodological annex. The supporting spreadsheets deriving the summary of methods used to determine origin reported in the *Review* (figure 4.1, p. 67) are provided on the web with this Annex.

While the texts for each agreement can be downloaded from the DFAT trade agreement website, 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 4.2 (p. 66) 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, Korean and Japanese agreements 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.

There is no single way of summarising rules within and between agreements. The approach first adopted for the 2012‑13 *Review* and repeated for the Japan–Australia agreement in this year’s *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.
* For each rule, those entailing only a change in tariff classification (CTC) test, only a regional value content (RVC) test, or the choice of either a CTC or RVC test are separately identified. Other rules such as ‘wholly obtained’, technical tests, or a mix of CTC and RVC rules (qualifying value content (QVC) rules for the Japan–Australia agreement) are included in the ‘other’ category.[[1]](#footnote-1)
* 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 QVC test in the case of the Japan–Australia agreement) or a technical test.

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 the four categories. For the right hand panel of figure 5.1, rules that only involve a CTC 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 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 4.1 in the *Review*.

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| Figure 5.1 Methods used to determine the origin of merchandise trade in Australia’s preferential trade agreementsa,b,c,d |
| |  |  | | --- | --- | | *Rule for determining origin*  *Per cent of specified rules*c  Figure 5.1 outlines methods used to determine origin of merchandise trade in Australia's preferential trade agreements. The left hand panel shows the incidence of specified rules by agreement. The right hand panel shows the incidence of the application of the CTC method. More details can be found within the text immediately surrounding this image. | *Application of CTC method*d  *Per cent of specified CTC rules*c  Figure 5.1 outlines methods used to determine origin of merchandise trade in Australia's preferential trade agreements. The left hand panel shows the incidence of specified rules by agreement. The right hand panel shows the incidence of the application of the CTC method. More details can be found within the text immediately surrounding this image. | |
| a ‘CTC’ refers to a change in tariff classification test. ‘RVC or QVC’ refers to a regional or qualifying value content rule. ‘Other’ includes, combined CTC and RVC/QVC 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 originally 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 |
| |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  | New Zealand | Thailand | United States | Chile | ASEAN | Malaysia | Korea | Japan | | *Incidence of rules for determining origin* | | | | | | | | | | CTC only | 1978 | 1979 | 764 | 2260 | 346 | 282 | 3089 | 816 | | RVC/QVC only | 2 | 1 | 3 | 0 | 67 | 0 | 8 | 0 | | CTC or RVC | 93 | 55 | 136 | 187 | 2231 | 2303 | 1142 | 952 | | Other | 740 | 872 | 77 | 356 | 458 | 92 | 966 | 403 | | Totala | 2813 | 2907 | 980 | 2803 | 3102 | 2677 | 5205 | 2171 | | *Incidence of rules for the application of the CTC method* | | | | | | | | | | Chapter 2-digit | 333 | 378 | 229 | 411 | 1107 | 381 | 936 | 436 | | Heading 4-digit | 973 | 1009 | 415 | 907 | 589 | 900 | 2739 | 870 | | Subheading 6-digit | 1486 | 1489 | 332 | 1480 | 1035 | 1377 | 1147 | 865 | | Total | 2792 | 2876 | 976 | 2798 | 2731 | 2658 | 4822 | 2171 | |
| 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. The Japan–Australia agreement uses the term Qualifying Value Content rule instead of the Regional Value Content rule used in most other agreements. For example, the Japan–Australia agreement uses the term “QVC 40” which means that the good has a qualifying value content of not less than 40 per cent and that the last process of production of the good has been performed in the exporting country. [↑](#footnote-ref-1)