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SIMPLIFIED USER-FRIENDLY GUIDE ON PAN-EURO MEDITERRANEAN CONVENTION

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SNKE Report
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1 INTRODUCTION:

Spaghetti bowl has become one of the popular terms in international trade used to define the complex network of free trade agreements between countries. The attention of policy makers and general public has usually been made to whether free trade agreements are signed and with whom the free trade agreements were signed.

However, once the implementation of these free agreements starts, complaints from companies, particularly small and medium sized enterprises, as being not very much involved in international trade and supply chains, are heard claiming that these free trade agreements only promote imports but not exports of the local products.

The reality lies in the rules of origin protocols of free trade agreements. The rules of origin protocols are integral parts of any given free trade agreement. These protocols are the ones defining which products may benefit from preferential treatment and under which condition the given free trade agreement would extent the preferential treatment to goods from third countries.

Under the hypothetic scenario, liberalized trade in goods will function perfectly without even a need of having the rules of origin protocol in case all the goods exported to other Party are manufactured by the use of materials fully originated from the exporting country or imported from the other signatory Party. However, this scenario in today's World is almost impossible except only for some products like live animals or meat products manufactured from animals. In particular, industrial products and processed agricultural products which include hundreds or thousands of different materials. Sourcing all of them in one or two countries which signed free trade agreements with each other are practically impossible. That's why the rules of origin protocols offer product specific definitions and rules how to extend the preferential treatment for goods to other countries than the ones signed free trade agreements and how optimum would be to require local content for the goods to be manufactured in the signatory Parties of a free trade agreement.

This guide would therefore offer a simplified and user-friendly explanations how to read and understand the Pan-Euro Mediterranean (PEM) Convention. The reason why the PEM Convention will be at the center of this guide is that CEFTA (Central European Free Trade Agreement) and the SAAs (Stabilisation and Association Agreements) signed with the EU is based on the PEM Convention and have identical rules of origin.

There is also another important reason why the PEM Convention will be the basis of this guide that the PEM Convention is expected to be revised substantially. The revision exercise has been underway almost for the last ten years in order to simply the rules of origin in the PEM Convention and to help facilitating the regional trade in Pan-Euro Mediterranean Zone. The revision exercise of the PEM Convention is expected to reach a successful conclusion very soon. It is very much likely a revised text of the PEM Convention will be adopted in the summer of 2019 and the implementation will start immediately thereafter for its current contracting Parties.

The idea of having a single regional Convention that regulates all the rules of origin protocols of free trade agreements which are attached to that Convention came up in late 1990s. The pan-European cumulation system was created between the EC, the

EFTA states[1], the Central Eastern European Countries and the Baltic States in 1997. Thereafter, Pan-European Cumulation system was extended to Slovenia and to industrial products originating in Turkey in 1999. The system also included the Faroe Islands.

Joining the participants of the Barcelona Process[2] (basically countries in North Africa and Middle East) to the cumulation system has led to the creation of a Pan-Euro-Mediterranean Cumulation system of origin in 2005.

At the Euro-Mediterranean Trade Ministers meeting of 21 October 2007 in Lisbon, the initiative of creating a single PEM Convention which the rules of origin protocols of all the free trade agreements between the above-mentioned countries are to be linked to was endorsed. In parallel, the Western Balkan countries including Kosovo in the context of the Stabilization and Association Process were included into the text of a single PEM Convention.

The text of PEM Convention (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2013:054:TOC) has thereafter opened for signing by each participating country. The current signatories of the PEM Convention can be found in the following weblink of Council of the European Union.

https://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2010035

According to the latest list, all the Contracting Parties have signed and ratified the Convention except Syria and Kosovo. In the case of Syria, due to the civil war the status of Syria was suspended as a contracting party.

Regarding Kosovo, the denomination employed for Kosovo is not found acceptable by the Kosovo authorities and therefore Kosovo government keeps signing of the Convention pending.

This guide note is of technical nature and therefore does not mention any political issues thereon with regard to the PEM Convention. Due to the expected revision of the current PEM Convention text, the guide takes into account the revised version of the PEM Convention according to the latest version available to the EU Project. The version used in this guide is 21 February 2019.

For the sake of clarity and offering a structured understanding, the guide will also refer to the basic terms and concepts used in rules of origin, if necessary. If appropriate and inevitable, the direct references would be given to Articles of the PEM Convention. Lastly, all readers are advised to check other documents which are found publicly available and the links are provided by the guide in order for having further reading and keeping themselves updated.

[1] Iceland, Liechtenstein, Norway and Switzerland

[2] Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey;

2 METHODOLOGY USED:

In the preparation of this guide, the first layer of attention is given to the rule and then how the compliance to that rule is to be subject to what type of certification. If necessary, how and what types of control are foreseen to check the compliance to this certification are also explained.

The rules of origin protocols including the PEM Convention are and can be used for totally different objectives by different actors.

The Ministries involved in trade policy, particularly the ones for trade and agriculture have been using the rules of origin protocols are for policy purposes. Their understanding of the rules of origin protocols is centered on determining the level of access to be granted to the national markets and how much access to be gained in export markets through rules of origin.

The Customs Authorities mainly apply the rules of origin for controlling whether the rules are respected by the companies and monitoring the correct implementation of the rules of origin, detecting any violation of the rules, and imposing administrative penalties, if justifiable.

Whereas, business operators including both manufacturers and traders need to comprehend the rules of origin to implement and benefit from the rules for their business.

Thus, the main objective of this guide is to offer simple and understandable language for non-customs experts and how the rules could be implemented by business operators. In this regard, a different logical flow is followed than the order of Articles appeared in the Convention. By using this re-structured logical flow, it is believed that business operators may have much user-friendly guide for their daily operations.

Due to the budgetary and time restriction, this guide does not provide any deep sector-specific explanation but only superficial. Deeper sectoral analysis may require further explanations per each sectoral activity.

MAIN STRUCTURE OF THE REVISED TEXT OF PEM CONVENTION (version 21 February 2019):

Main text of the PEM Convention:

The main text of the PEM Convention is short as it only includes 11 Articles. The main text includes preamble, four different parts.

<u>Part I is for general provisions:</u>

The PEM Convention lays down provisions on the origin of goods traded in the context of each bilateral or regional free trade agreement (Relevant Agreements) concluded between the Contractual Parties and where the link between the rules of origin protocols of these relevant agreements and PEM Convention is formally established.

Appendix I of the Convention provides general rules for the definition of the concept of originating products and the methods of cooperation. (Article 1.2.)

Whereas, Appendix II sets out special provisions or derogations from the general provisions which have been agreed before January 1st of 2019 and are applicable between certain Contracting Parties.

The derogation from general principles of cumulation and prohibition of duty drawback stemming from CEFTA Decision 3/2015 is one of the derogations that can be found in Appendix II.

Other derogations concluded before 2019 but not included in Appendix II will remain valid as legally the Regional Convention does not have mandate to outlaw any bilateral arrangements agreed between two or more countries independently.

For the sake of transparency, Article 1 (3) of the Convention foresees the rules regulating the procedures related to possible derogations that would be agreed bilaterally after January 1st 2019.

Accordingly, all the derogations from general provisions of the Convention after January 1st 2019 will have to be in line with Article XXIV of GATT and shall be informed by the derogating Parties to the Chairperson of the Joint Committee.

The derogations may only enter into application at the earliest in one month after the information regarding derogations was provided to the Chairperson of the Joint Committee.

The Chairperson of the Joint Committee will inform other Contracting Parties about the receipt of information regarding the derogations and the timing when they enter into application.

Important Note:

1) ***The procedures on special provisions and derogations are important as the revised Convention foresees the extension of full diagonal cumulation to Chapters 50 to 63 (textile and clothing) upon the condition of bilateral agreement between two Contracting Parties to be reached on special provisions.***
2) ***It is important to note that the requirement foreseen by Article 1(3) is not application for an approval but only for information to enhance transparency. It means that any bilateral agreement between two Contracting Parties to extend full cumulation to Chapters 50-63 would not need to seek an approval from other Contracting Parties of the PEM Convention. However, there will only be the requirement of sending the necessary information on the bilateral agreement of special provisions or derogations to Chairperson of the Joint Committee with a waiting period of minimum of 1 month+1 day before the special provisions enter into application.***

Part II is for provisions related to Joint Committee:

- **Rule for decision making in the PEM Convention:**

The principle decision making rule is unanimity. According to Article 3(2), the PEM Convention Joint Committee acts by unanimity except in the cases of accession of new parties where the consensus minus two would be applicable.

The Joint Committee has the mandate to adopt decisions by unanimity to amend the Convention, invite third parties to accede to the Convention, and transitional measures for the accession of new Contracting Parties.

The decisions adopted by the PEM Convention Joint Committee will be put in effect according to national legislation of each Contracting Party.

Important Note:

1) ***Any amendment to the Convention including its preamble requires unanimity by the Joint Committee.***

Part III for provisions related to Accession of Third Parties:

- **Rule for the accession to PEM Convention:**

Any country may become a Contracting Party, if the candidate country or territory has a free trade agreement in force foreseeing preferential rules of origin with at least one the Contracting Parties.

It is necessary for that country willing to join the PEM Convention to submit a written request to the Joint Committee through depositary.

Part IV includes miscellaneous and final provisions. Among others, Article 8 rules that the Appendixes of the Convention shall form an integral part of the Convention. And Article 11 reads that the General Secretariat of the Council of the European Union shall act as depositary of the Convention.

3 CONCEPT OF ORIGINATING PRODUCTS

Appendix I of the Convention provides the definition of the concept of originating products and methods of administrative cooperation. It is divided into eight different titles. The Appendix I has also eight annexes.

In terms of structure of the Appendix I titles, Article 1 under Title I provides essential definitions of some terms crucial for the implementation of the Convention.

The rules for the implementation of the Convention are defined through the articles provided in Titles II (Definition of the Concept of Originating Products), III (Territorial Requirement), and IV (Drawback or Exemption).

Under Title V; the procedures how to get certification to prove the preferential origin of goods are defined.

Title VI provides what types of supplementary documents and evidences should be provided and controlled in order to verify the certification related to preferential origin (proof of origin).

And Title VII is devoted to Administrative cooperation between customs authorities and procedures to be followed for verification of certificates (either proofs of origin or supplier's declaration).

The last title is for application of the protocol in different economies areas and territories such as EEA, Lichtenstein, San Marino, Andorra and Ceuta and Melilla.

The product specific rules setting up certain criteria or thresholds to determine preferential origin of goods; not wholly obtained but being subject to sufficiently working and processing are provided in Annex II.

Annex I is for the explanatory notes regarding specific rules provided in Annex II.

Annex III gives text of the origin declaration which is to be used where movement certificate of EUR 1 is not required.

Annex IV provides for specimens of movement certificate EUR 1 and application for a movement certificate EUR 1.

Annex V is for special conditions concerning products originating in Ceuta and Melilla.

Annex VI and VII provides template format of supplier's declaration and long-term supplier's declaration, respectively.

Annex VIII is reserved to the list of Contracting Parties who will opt for extending full diagonal cumulation for Chapters 50 to 63 of the Harmonised System.

Appendix I

THE DEFINITION OF THE CONCEPT OF 'ORIGINATING PRODUCTS' AND METHODS OF ADMINISTRATIVE COOPERATION

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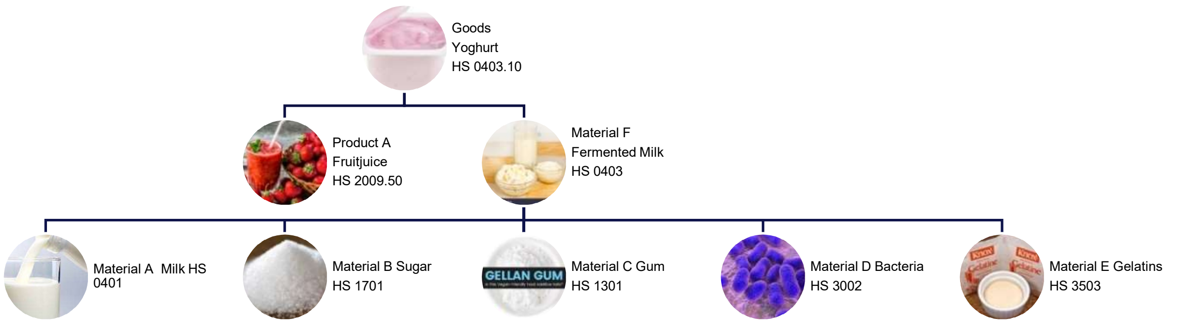
List of Annexes

4 KEY DEFINITIONS TO KNOW

1) **Goods, products and material**: According to the revised text of the Convention, **goods** means both materials and products. The Convention defines **products** as a product being manufactured, even it is intended for a later used in another manufacturing operation. While, **material** includes any ingredient, raw material, component or part used in the manufacture of the product.

Upon the definitions provided above, the following graph depicts the hierarchical relations between goods, products, and materials.



Note: For the sake of simplifying descriptions and facilitating understanding the main concepts of the Convention, fruit flavored yoghurt would be used as the main example for the rest of the document to the extent applicable.

2) **Customs value**: According to the Convention, customs value means the value as determined according to the WTO Agreement on Customs Valuation.

As a general principle, customs value of imported goods (includes both product and material) shall be the transaction value.

Transaction value means the price actually paid or payable for the goods when sold for export to the country of importation adjusted in accordance with the following provisions (Article 8 of WTO Valuation Agreement).

Followings shall be added to the price actually paid or payable for the imported goods:

A

- Commissions and brokerage, except buying commissions;
- The cost of containers which are treated as being one for customs purposed with the goods in questions

  And with goods in question

- The cost of packing whether for labour or materials.

  (the above three points can be added to the extent that they are incurred by the buyer but are not included in the price actually paid or payable for the goods)

B

The value, proportional as appropriate, of the following goods and services where supplied directly or indirectly by the buyer free of charge or at reduced cost for use in connection with the production and sale for exports of the imported goods, to the extent that such value has not been included in the price actually paid or payable:

- Materials, components, parts and similar items incorporated in the imported goods
- Tools, dies; moulds and similar items in the production of the imported goods,
- Materials consumed in the production of the imported goods;
- Engineering, development, artwork, design work, plans and sketches, undertaken elsewhere than in the country of importation and necessary for the productions of the imported goods
- Royalties and license fees related to the goods being valued that the buyer must pay, either directly or indirectly, as a condition of sale or the goods being valued, to the extent that such royalties and fees are not included in the price actually paid or payable,
- The value of any part of the proceeds of any subsequent resale, disposal or use of the imported goods that accrues directly or indirectly to the seller

C

- Each WTO member shall provide in its legislation for the inclusion or the exclusion from the customs value, in whole or in part, of the following:
- The cost of transport of the imported goods to the port or place of importation;
- Loading, unloading and handling charges associated with the transport of the imported goods to the port or place of importation; and
- The cost of insurance

Basically, this is CIF (cost, insurance, freight) value.

If the above are paid by the buyer, the value is FOB (Free on Board) value which means value of goods excluding carriage, insurance, and freight.

In conclusion, customs value would either be A+B or A+B+C according to the national legislation.

More detailed information and full text of the WTO Agreement on Customs Valuation can be found in the following weblink.

https://www.wto.org/english/docs_e/legal_e/20-val_01_e.htm

IMPORTANT NOTE: Customs value is different than ex-works price.

3) **Ex-works** price means the price paid for the product ex-works to the manufacturer in the Contracting Party where the last working or processing is carried out provided that the price includes
   a. The value of all the materials plus
   b. All other costs related to its products such as engineering, development, royalties paid, labour cost etc. minus
   c. Any internal taxes which are to be repaid when the product obtained is exported

In case the last working or processing is subcontracted to a manufacturer, the manufacturer is to be accepted as the enterprise that has employed the subcontractor.

IMPORTANT NOTE: In case the actual price paid does not reflect all costs related to the manufacturing of the product which are actually incurred in the Contracting Party, the ex-works price is accepted according to the definition above: all costs incurred for the manufacturing minus internal taxes.

EX-WORKS PRICE < FOB < CIF

4) **Fungible materials or fungible products** mean materials or products which are of the same kind and commercial quality, with the same technical and physical characteristics and which cannot be distinguished from one another.

   IMPORTANT NOTE: The definition of fungible materials is important for the implementation of accounting segregation according to Article 12 of the Convention. Please note that the status of preferential origin is attained, according to the rules of origin in each free trade agreement signed by countries. Therefore, the very same products or materials may be accepted as originating according to one free trade agreement in case of all the required rules of the Agreement's rules of origin protocol are met while it may not be accepted for another free trade agreement which the same country has signed.

For business sector, it is important to comprehend Article 12 of the Convention and meet all the requirements foreseen in this Article in order to benefit from facilitations offered by that Article in case the same materials or products are traded to different free trade partners of Kosovo.

5) **Value added** is to be accepted in the application of cumulation related articles of the Convention as the ex-works price of the product minus customs value of each of the materials (and/or products) incorporated which originate in the other Contracting Parties with which cumulation is applicable.
6) **Territory** means the land territory, internal waters and territorial sea of a Contracting Party.

5 BASIC CONCEPTS TO KNOW IN APPLICATION OF BILATERAL, DIAGONAL AND FULL CUMULATION ACCORDING TO THE CONVENTION

As mentioned in the methodology, the guide will first provide the rule to be applied in each concept and how the compliance to the specific rule will need to be certified, and what possible controls and monitoring may the customs authorities may do.

For the sake of providing simple, and easy to understand guide, the business operator logic is applied.

In order to comprehend the whole concept of preferential origin as foreseen by the Convention, an operator should first be sure about tariff classification of its goods manufactured and all other products and materials incorporated.

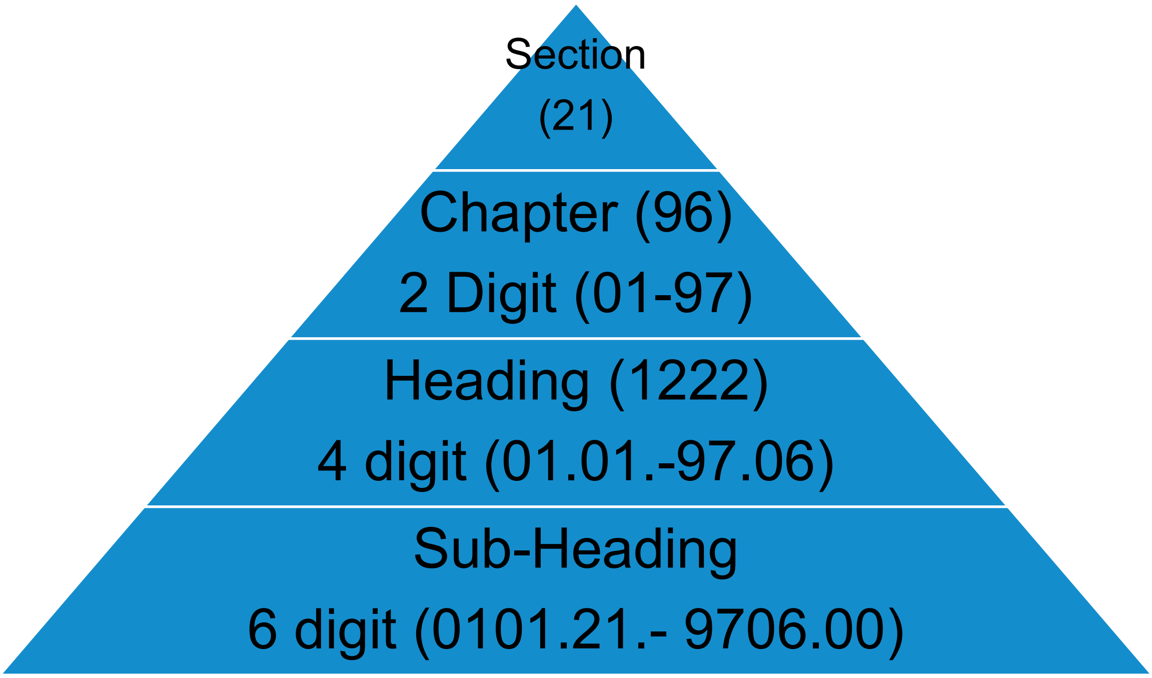
For the sake of simplification, the example of yoghurt will continue being used:

5.1 CONCEPT OF UNIT OF CLASSIFICATION:

RULE: The unit of qualification for the application of the Convention shall be the particular product which is considered as the basic unit when tariff classification using the nomenclature of the Harmonised System is determined.

IMPORTANT NOTE: It is of crucial importance to specify tariff code of that particular product which a business operator will seek to apply the provisions of the Convention. Without specifically determining the tariff code or any mistake it may happen in determining the tariff code may cause to misleading interpretation of the Convention.

Example: 0403.10 is the subheading code of yoghurt. According to EU TARIC in line with Harmonised System, it includes both yoghurt not flavoured nor containing added fruit and the ones flavoured or containing added fruit. In case need be, HS code of product level might be determined if the product level code with 8 digits are available. It is important to note that 8 digits and further are left to each country to define according to national needs while respecting international classification of HS provided for 6 digits.



RULE : It requires that in case a product composed of a group or assembly of articles is classified in a single heading, the whole constitutes of the unit of classification.

This is much more applicable for industrial products.

Example: Writing compendiums classified under 4817.30 could be a good example where different sorts of papers are classified under the same subheading; this would be used as the main unit of classification to apply for the Convention.

Whereas a consignment includes a number of identical products classified under the same heading of HS, each individual item shall be taken into account when applying the Convention.

Example: If a consignment includes identical products, yoghurt as classified under 0403.10 as an example, each product will be taken into account individually whether the rules of preferential origin are to be applicable or not. The logic is to be sure about the identical nature of products for tariff classification purposes would also be applicable for the rules of origin purposes. In the case of yoghurt, though there is no different product specific rule foreseen by the Convention for all Chapter 04, the heading of 0403 includes many different types of fermented milk products.

RULE: In case, the packaging is to be included with the classification of the product according to General Rule 5 of the Harmonised System, it shall also be included for the purposes of origin.

In short, the general rules for the interpretation of Harmonised Sytem stipulate that cases such as camera cases, musical instrument cases etc and similar container which are specially shaped of fitted to contain a specific article or set of articles will be classified with such articles when they are normally sold within that case or container.

Example: In the case of fruit-flavoured yoghurt, containers or cups which contain yoghurt will not be taken into account for the classification purposes as well when determining the origin of the product according to the Convention.

IMPORTANT NOTE: Whereas the same GR 5 reads that packaging materials and packaging containers presented with the goods therein shall be classified with the goods provided that they are of a kind normally used for packaging goods. However, this is not binding when such packaging material or contained are clearly suitable for repetitive use. It means that packaging material or container with repetitive use or not of a kind normally used for packaging goods can be classified separately. In this case, these packaging materials would also be assessed separately for the purpose of determining origin.

Example: A luxury item like perfume which might be packed in a gold container will be classified under different headings according to GR 5. While perfumes are to be classified under Heading 3303.00, and container thereof made of gold, will be classified under heading 7113.19.

RULE: Accessories, spare parts and tools delivered together with a piece of equipment, machine, apparatus or vehicle, which are part of the normal equipment and included in the ex-works price thereof, will be accepted as one piece of equipment, machine, apparatus or vehicle in question.

Example: One spare tire delivered together with a car will not be classified separately but will be accepted as part of the car for determining classification and origin.

5.2 RULES ON SETS

Before defining the concept of originating products, any business operator should pay attention to the rules on sets.

GR 3 offers a guidance in the cases when a product might be classified under two or more headings. In these instances, the first rule is to prefer the heading which provides the most specific description to headings providing more general description.

In case composite goods consisting of different materials or made up of different components, and goods brought together as sets for retail sale, which cannot be classified according to the above mentioned paragraph, it will be classified as if they consisted of the material which gives them their essential character.

If both above mentioned paragraph is not applicable, the heading which provides the most specific description shall be preferred.

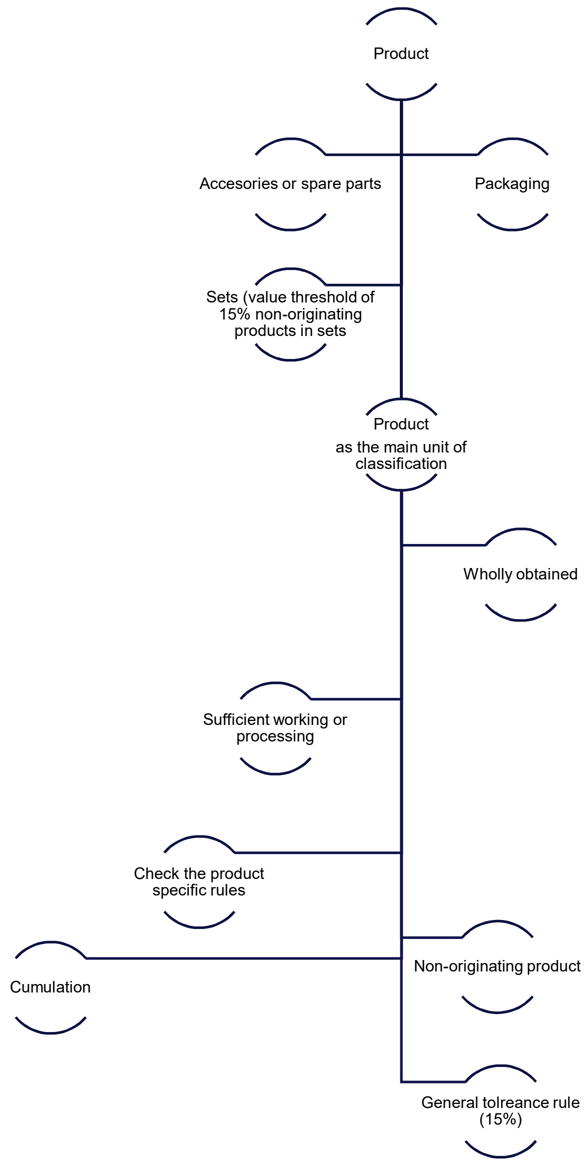
RULE: In case, the products which are falling into the definition of sets in accordance to GR 3 of the Harmonised System shall be regarded as having preferential origin when all the component products are originating.

RULE : In case a set is composed of originating and non-originating products, the set as a whole shall be regarded as originating with the condition that the value of non-originating products **does not exceed 15% of the ex-works price of the set.**

Example: The picture below is a toy set including a doll made up from plastics, a toy oven made up from plastics, and a play dough. The set is put for retail sale as the package shown above.

Once the above mentioned GR 3 first rule is applied, we will have to check if there is any specific heading which may provide the most specific description compared to other headings. 9503 is the most specific heading which is particularly defining dolls. Further, 9503.00.70 is attained for toys which are put up in sets.

In case the product is exhaustively defined, and tariff code is being attained for the product, we may come to the stage of assessing whether the product in question may have preferential origin according to the Convention. To display the logical flowchart of the rules when classification of products is decided and the following stages after the classification to determine the origin, the following diagram is provided.


Product
Accesories or spare parts
Packaging
Sets (value threshold of 15% non-originating products in sets
Product as the main unit of classification
Wholly obtained
Sufficient working or processing
Check the product specific rules
Cumulation
Non-originating product
General tolreance rule (15%)

6 MAPPING PRODUCTION PROCESS AND SUPPLY CHAIN IS IMPORTANT TO IMPLEMENT RULES OF ORIGIN

As the above diagram shows, once the tariff classification of the product in question is decided, we will have to check the production process with the rules of determining the origin. Therefore, an operator should fully be aware of all the details of its production process and supply chain. In order to reap the full benefits which may the origin protocols of a network of free trade agreements that a country has, the business needs to analyse very deeply their production process, and supply chains together.

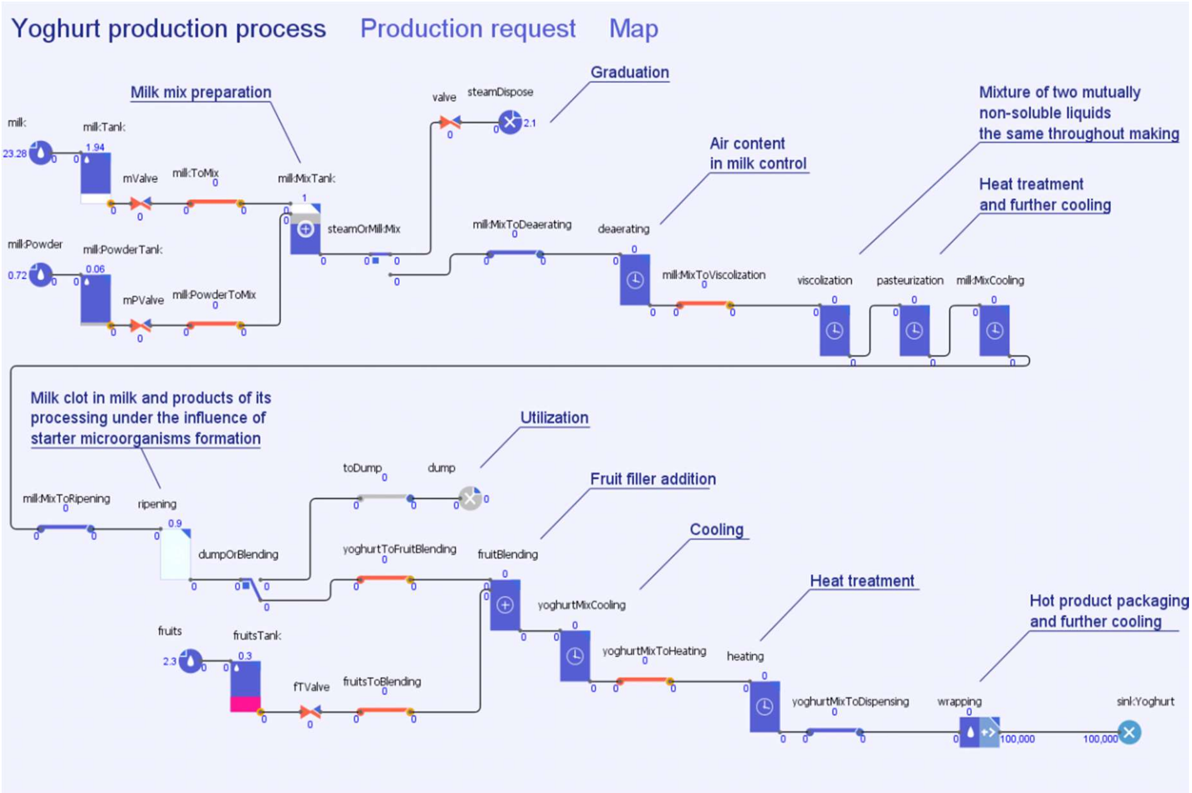
The production process would reveal information about the composition and sourcing of materials incorporating into the final product as well as types of working and processing. Whereas, the analysis of supply chain would offer a better understanding possible issues regarding sourcing of either materials or provision of services as working and processing. After all the rules of origin should be taken into account together with technical, sanitary and phytosanitary measures which ever is applicable, and other trade and transport facilitation issues if the optimisation of a supply chain is aimed.

For the sake of simplicity, the guide will continue referring to production of yoghurt to explain the concepts of wholly obtained, sufficient working or processing, insufficient working or processing, and bilateral and diagonal cumulation. However, as the production process of apparel provides a better understanding of full cumulation, this process will be employed as an example to explain full bilateral and diagonal cumulation.

Main production processes of yoghurt production:

According to the information available in the sectoral websites regarding milk and milk products, the following stages are named as the main processes of yoghurt:

- Adjusting Milk Composition to achieve the desired fat and solids content and Blending Ingredients (such as stabilizers)
- Pasteurize Milk / High Treat Treatment
- Homogenizing to mix all ingredients
- Cooling Milk
- Inoculating with Starter Cultures (such as Lactobacillus bulgaricus and streptococcus thermophilus)
- Holding to reach the required pH level to allow the fermentation
- Cooling to stop the fermentation process
- Adding fruits and flavours
- Packaging



As described above a producer should be certain about the tariff code of its product(s) which are to be manufactured according to the Harmonised System.

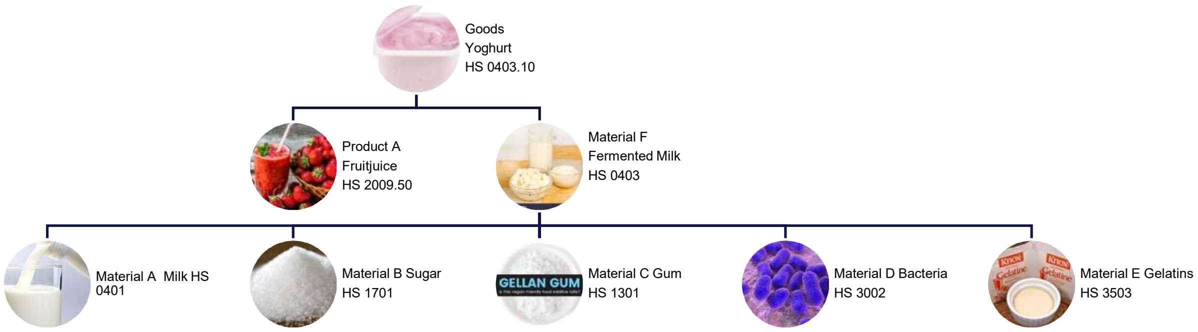
Yoghurt is classified under HS 0403.10 as subheading. According to types of flavour and fat ratio there product level HS codes which will not be used for this guide unless necessary.

According to the revised Convention, the product specific rule as listed in Annex II of the revised Convention is as follows:

HS Heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status
Chapter 4	Dairy products; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	Manufacture in which all the materials of Chapter 4 used are wholly obtained

The rule means that the materials used in production of yoghurt which are classified under Chapter 4 must be wholly obtained while the rest of materials might be supplied from other countries (non-originating materials).

In the case of yoghurt, the following would be the materials used for its production:



- Milk (HS 0401)
- Fruit (e.g. Strawberry HS 0810.10) or Fruit juice (e.g. strawberry juice HS 2009.50)
- Sugar (HS 1701) (if necessary)
- Gum (HS 1301)
- Bacteria (HS3002)
- Gelatins (HS 3503)

According to the product specific rule of yoghurt, milk, which is the only material classified under Chapter 4, must be wholly obtained.

What are the conditions of being wholly obtained?

The conditions for wholly obtained products are listed in Article 3 of the Appendix I of the revised Convention.

Article 3

Wholly obtained products

1. The following shall be considered as wholly obtained in a Contracting Party when exported to another Contracting Party:

(a) mineral products and natural water extracted from its soil or from its seabed;

(b) plants, including aquatic plants, and vegetable products grown or harvested there;

(c) live animals born and raised there;

(d) products from live animals raised there;

(e) products from slaughtered animals born and raised there;

(f) products obtained by hunting or fishing conducted there;

(g) products of aquaculture where the fish, crustaceans, molluscs and other aquatic invertebrates are born or raised there from eggs, larvae, fry or fingerlings;

(h) products of sea fishing and other products taken from the sea outside any territorial sea by its vessels;

(i) products made on board its factory ships exclusively from products referred to in (h);

(j) used articles collected there fit only for the recovery of raw materials;

(k) waste and scrap resulting from manufacturing operations conducted there;

(l) products extracted from the seabed or below the seabed which is situated outside its territorial sea but where it has exclusive exploitation rights;

(m) goods produced there exclusively from the products specified in (a) to (l).

2. The terms ‘its vessels’ and ‘its factory ships’ in paragraph 1(h) and (i) shall apply only to vessels and factory ships which meet each of the following requirements:

(a) they are registered in the exporting or the importing Contracting Party;

(b) they sail under the flag of the exporting or the importing Contracting Party;

(c) they meet one of the following conditions:

(i) they are at least 50 % owned by nationals of the exporting Contracting or the importing Contracting Party, or

(ii) they are owned by companies

- which have their head office and their main place of business in the exporting or the importing Contracting Party and

- which are at least 50% owned by the exporting or the importing Contracting Party or public entities or nationals of these Parties.

3. For the purpose of paragraph 2, when the exporting or the importing Contracting Party is the European Union, it means the Member States of the European Union.

4. For the purpose of paragraph 2, the EFTA States are to be considered as one Contracting Party.

RULE: For the particular case of milk, milk should be produced from animals raised in the Contracting Party where the yoghurt production is carried out according to the product specific rule.

The rule does not require the milk should be produced from animals born there.

The rule allows importation of animals which are born in another country with a young age to a contracting party. However, these young animals should be raised in that contracting party where the milk will be produced.

In case, the yoghurt production will take place in the same Contracting Party where the milk is wholly obtained. Then, preferential origin would be conferred for yoghurt the production of which is undertaken with the milk produced in the same country.

However, it should be noted, preferential origin status of a particular product is only applicable in the bilateral trade of that product (e.g. yoghurt produced in one Contracting Party) between one Contracting Party to another Contracting Party under the following conditions:

- Bilateral or Regional Free Trade Agreement (such as CEFTA or EU SAA)
- Identical rules of origin to be applied in the subject free trade agreements (such as CEFTA and SAAs)

However, when an export-oriented production process is planned, technical and SPS rules, specific to the given product, should also be checked besides the rules of origin.

Let's assume milk is produced from animals raised in one of the CEFTA Parties (for example: Kosovo).

Let also assume that the milk, wholly obtained in Kosovo, is also used in the production of yoghurt in Kosovo, and it is planned for the exportation to the EU.

It is not possible to realise such exportation as the yoghurt produced in Kosovo, which is made of wholly obtained milk in Kosovo, does not meet necessary veterinary standards of the EU. Therefore, even if it may attain the preferential origin status according to the rules of origin, the export would not be able to destined to the EU.

However, in case the relevant SPS standards are different in one or more CEFTA Parties than the ones required by the EU, such bilateral trade between Kosovo and other CEFTA Party may happen. For example, yoghurt produced from milk which was wholly obtained in Kosovo can be exported to Albania with preferential origin.

7 BILATERAL CUMULATION:

If we assume, there is not enough milk production in Kosovo to meet the demand of yoghurt coming from Albania. Then, the manufacturer in Kosovo may consider importing milk either from Albania or any other CEFTA Party in order to keep the specific product rule of origin met for milk (i.e. wholly obtained).

In that case, the production of yoghurt in Kosovo will still benefit from preferential origin in the bilateral trade with Albania.

The first solution will be **bilateral cumulation in case the wholly obtained milk imported from Albania for the production of yoghurt in Kosovo**. As to be followed from the above example, the requirement to use the wholly obtained milk in yoghurt production is necessary for to confer preferential origin for the yoghurt. Therefore, milk produced and wholly obtained in Albania can also be exported to Kosovo for the production of yoghurt in Kosovo, in case Kosovo does not have enough production capacity of milk. Even under this condition yoghurt produced in Kosovo will have preferential origin in the bilateral trade with Albania thanks to bilateral cumulation as materials originating from another Contracting Party will be considered as having been originated in the exporting Contracting Party.

8 DIAGONAL CUMULATION:

If we assume that the same producer of yoghurt in Kosovo has found a good level of demand in Macedonia and Bosnia and Herzegovina, the same yoghurt produced in Kosovo processing the imported of milk which was wholly obtained from Albania will have preferential origin in the bilateral trade with Macedonia and Bosnia and Herzegovina. This is still possible under the following conditions in case diagonal cumulation is allowed by:

- Bilateral or Regional Free Trade Agreement (such as CEFTA) and
- Identical rules of origin to be applied in the subject free trade agreements (CEFTA).

However, in case one of the CEFTA Parties has amended its legislation and raises its veterinary standards to the level of the EU. In that case, Kosovo exporter of yoghurt might be encountered with a non-tariff measure which may prevent the use of milk wholly obtained in Albania in the export of yoghurt to that particular CEFTA Party which aligned its SPS standards with the EU. Then, the possible solution might be to import milk wholly obtained in one of the EU member states meeting with all SPS standards for milk, and produce yoghurt in Kosovo as long as all other product specific technical and veterinary standards of the importing CEFTA Party are respected.

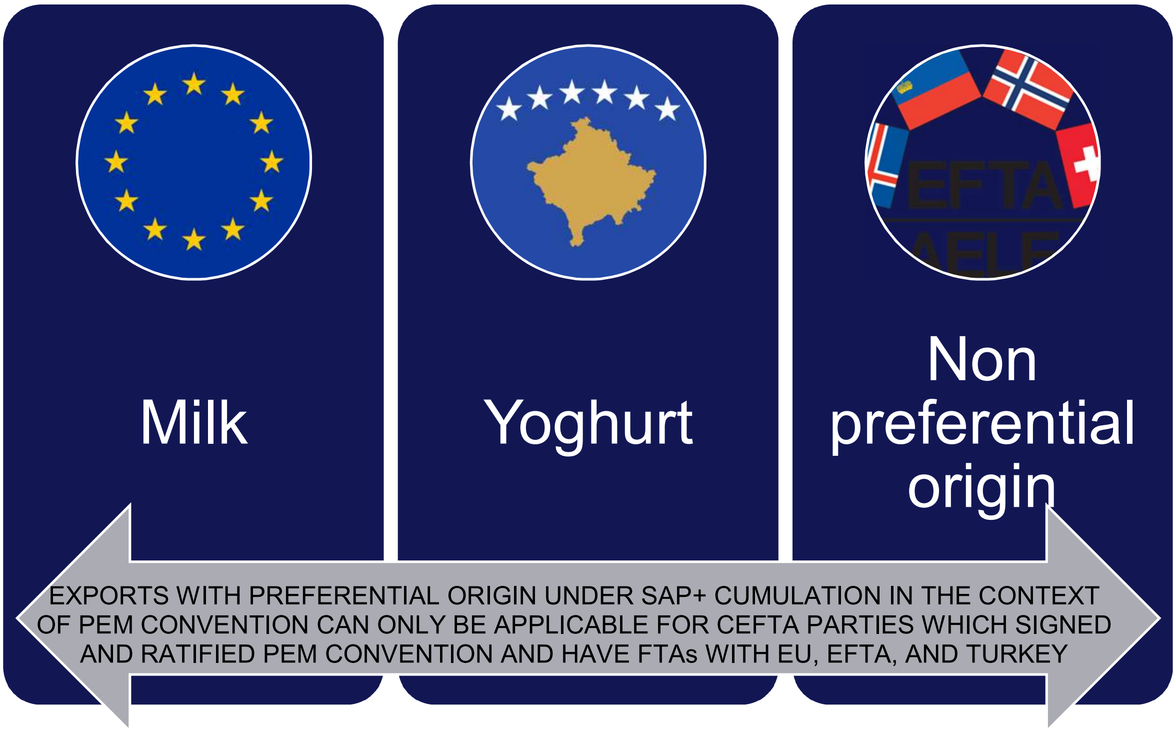
The above-mentioned case is possible thanks to CEFTA origin protocol allows cumulation of materials originated from EU, EFTA and Turkey in the regional trade between CEFTA Parties.

In case, the same product (yoghurt produced in Kosovo) with milk wholly obtained from the EU is exported to EU, EFTA or Turkey, the same product will only be able to confer the preferential origin when the following conditions are met:

- Bilateral or Regional Free Trade Agreement (CEFTA and EU SAAs and bilateral FTAs with EFTA and Turkey)
- Identical rules of origin to be applied in the subject free trade agreements (in CEFTA, SAAs with EU, bilateral FTAs with EFTA and Turkey, bilateral free trade agreements between EU and EFTA, and EU and Turkey – EU/TK Customs Union)
- Signing and ratification of PEM Convention, and the start of application of diagonal cumulation announced by the Commission notice

As both Turkey and EFTA have not fully liberalised processed agricultural products between themselves and EU, the export of yoghurt processed in Kosovo to EFTA and Turkey would not be able to benefit from full liberalisation but **preferential rate of duty provided that Kosovo signs free trade agreements with EFTA and Turkey, and as well as Kosovo will have to sign and ratify the PEM Convention.**

In case the yoghurt produced in Kosovo from milk wholly obtained from the EU meeting the EU SPS standards and the SPS standards of EFTA for yoghurt to be exported to EFTA, **Kosovo would still be required to sign and ratify and FTA with EFTA as well as the PEM Convention in order to benefit from preferential origin for its exported yoghurt to EFTA under diagonal cumulation.**



IMPORTANT NOTE: In order to sustain the above mentioned diagonal cumulation with EU and other FTA Partners of CEFTA Parties is only possible through signing and ratifying the PEM Convention. For the moment, all the free trade agreements have identical rules of origin with each other. Therefore, the diagonal cumulation may happen between the network of these FTAs blocks (CEFTA, EU SAAs, and bilateral FTA with EFTA and Turkey) which is called SAP + cumulation. In addition, all these above-mentioned free trade agreements

established linkages with the PEM Convention. This means that when PEM Convention is revised and has revised rules as described by this guide, all the FTAs linked to the PEM Convention will have automatically new rules of origin. However, in case of Kosovo since it does not sign or ratify the PEM Convention, any established diagonal cumulation by the current state of play will be broken in the regional trade within CEFTA or with other FTA Partners. The PEM Convention is a required condition to run the SAP + cumulation or diagonal cumulation with any other Contracting Party of the PEM Convention.

For the sake of further clarification of diagonal cumulation, an example from the car industry is given in order to provide a more complicated product specific rule. The product specific rule for cars is listed under Chapter 87. Accordingly, the following two rules are to be applied to determine the preferential origin of a car produced in one of the Contracting Parties of the PEM Convention.

HS Heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status
Ex Chapter 87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof; except for:	Manufacture in which the value of all the materials used does not exceed 45% of the ex-works price of the product
8708	Parts and accessories for vehicles of headings 8701 to 8705	Manufacture from materials of any heading, except that of the product, Or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product

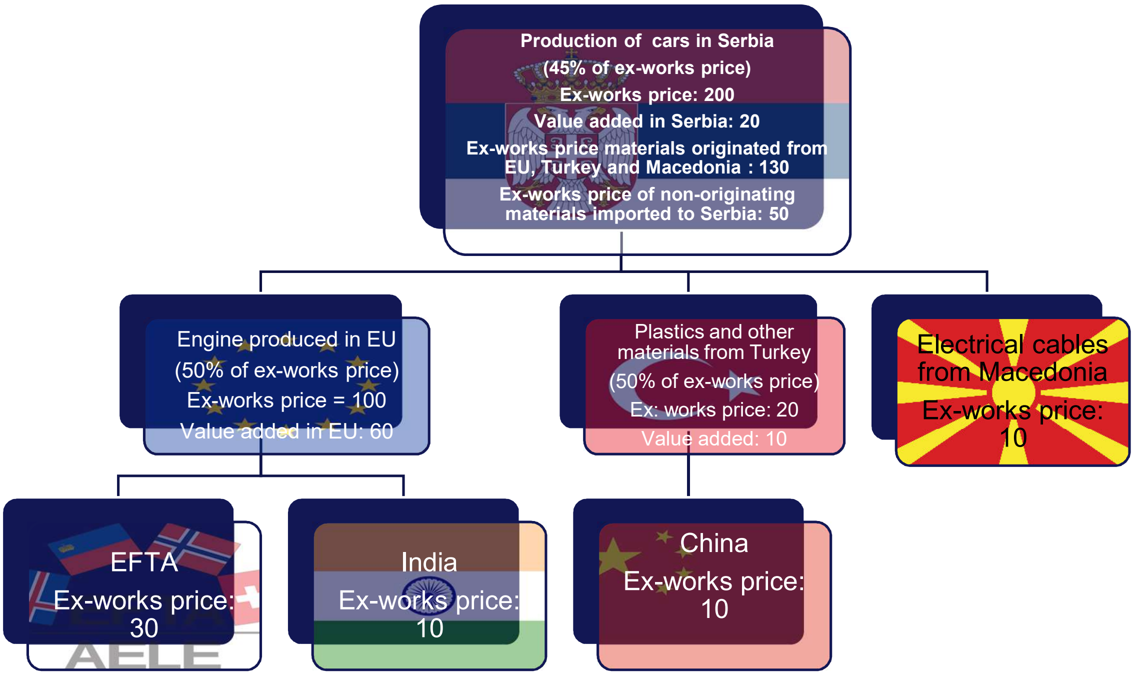
The HS code for a new passenger car with 1.6 L engine is 8703.23. Therefore, the above mentioned rule for Chapter 87 is to be applied. However, as the same rule reads that for parts and accessories for the vehicles classified under 8703 will have to respect either

- Manufacture from materials of any heading, except that of the product,

OR

- Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product

If we construct the following hypothetical case for a car supply chain between EU, Serbia, EFTA, Turkey, and third countries; we may assume the following conditions for diagonal cumulation must be respected in order to benefit from the preferential origin.



Under the above mentioned scenario, we may suppose the following results:

- Cars manufactured in Serbia with the imported parts from the EU, Turkey, Macedonia, and other Countries meet the required product specific rule of 45% ex-works price. Even though the value added of Serbia to the cars manufactured in Serbia is just 10%, and the cumulative value added in Serbia and all of its diagonal cumulation partners reaches 75% of ex-works price of the final production.
- The rule which is applicable for parts to be incorporated to the cars which will be manufactured in Serbia is 50% of the ex-works price of the product. Therefore, all the parts produced in EU, Turkey, and Macedonia meet the required threshold.
- The values of non-originating materials in imported parts of vehicles from EU, Turkey, and Macedonia will not be taken into account during the manufacturing of cars in Serbia provided that the parts produced in EU, Turkey, and Macedonia confer the preferential origin by the respecting corresponding product specific rule (Article 4 paragraph 2 of Appendix I)[3].
- Serbia would still have an opportunity to increase the volume of non-originating materials up to 45% of the ex-works price of the final product and may adjust

[3] Article 4.2. If a product which has acquired originating status in a Contracting Party in accordance with paragraph I *(i.e. respecting the conditions laid down in the product specific rules)* is used as a material in the manufacture of another product, no account shall be taken of the originating materials which may have been used in its manufacture.

the importation from its diagonal cumulation partners to make the exported product price competitive but still meeting the required criteria for the preferential origin.

- Cars manufactured in Serbia would have preferential origin in the exports from Serbia to EU, Turkey, and CEFTA under the context of SAP+ cumulation and PEM Convention as Serbia has signed and ratified PEM Convention and has FTAs with EU, EFTA, and Turkey having identical rules of origin with the PEM Convention.

9 FULL BILATERAL AND DIAGONAL CUMULATION:

As a novelty, the revised version of the PEM Convention will introduce the possibility of full cumulation between Contracting Parties for all products covered by the Convention except the products falling within Chapters 50 to 63.

This means that **working and processing** carried out in a Contracting Party other than the Exporting Contracting Party shall be considered as having been carried out in the exporting Contracting Party when the products obtained undergo subsequent working or processing in this exporting Contracting Party.

Let's assume the same example of yoghurt production in Montenegro rather than Kosovo as Montenegro signed and ratified PEM Convention. If we refer to the processing stages of yoghurt production, the new rule on full bilateral cumulation will allow recognising working and processing carried out in another CEFTA Party which signed and ratified the PEM Convention as having been carried out in Montenegro and would allow to add further working and processing in Montenegro together with the previous working processing in other CEFTA Party.

Processing stages of yoghurt production:

- Adjusting Milk Composition to achieve the desired fat and solids content and Blending Ingredients (such as stabilizers)
- Pasteurize Milk / High Treat Treatment
- Homogenizing to mix all ingredients
- Cooling Milk
- Inoculating with Starter Cultures (such as Lactobacillus bulgaricus and streptococcus thermophilus)
- Holding to reach the required pH level to allow the fermentation
- Cooling to stop the fermentation process
- Adding fruits and flavours
- Packaging

Let's assume that except two last processing (i.e. adding fruits and flavours, and packaging) are carried out in one of the CEFTA Parties such as Albania and the fermented milk was exported to Montenegro. Then, fruit and flavours are added and packed in Montenegro. In case, the final product, packed fruit flavoured yoghurt, is exported from Montenegro to Albania, the product will confer Montenegrin origin with preferential treatment in Albania. All the working and processing carried out in other CEFTA Parties will be considered as having been carried out in Montenegro.

The same preferential treatment will be accepted when the same product is exported to another CEFTA Party as CEFTA adopted a Ministerial Decision introducing full diagonal cumulation in the regional trade (CEFTA Decision 3/2015, http://cefta.int/wp-content/uploads/2016/05/Decision-No_3_2015_Amending-Decison-No-3-2013-1.pdf

The same provision will also be included in the list of derogations of the revised PEM Convention under Annex II of Appendix II).

Furthermore, the revised PEM Convention foresees full diagonal cumulation as a general principle except for products classified between Chapters 50 and 63. Therefore, the full diagonal cumulation is not only applicable in the bilateral trade between Montenegro and Albania, but also with other CEFTA Parties when yoghurt processed in Albania and Montenegro together. The product will confer Montenegrin origin as part of full diagonal cumulation

The full diagonal cumulation will also be applicable, when the same product benefiting from joint working and processing in Montenegro and Albania is exported to EU, EFTA or Turkey provided that yoghurt is produced from wholly obtained milk, and respect other technical and veterinary standards.

IMPORTANT NOTE: There would not be substantial differences between diagonal cumulation and full bilateral cumulation as regards to preferential treatment for products except the ones within Chapters 50 to 63. However, the economic integration will still be promoted as working and processing of two Contracting Parties (or more than two countries in case of CEFTA) will be considered as one rather than the origin of materials to be incorporated. In the case of CEFTA, the liberalisation of trade in services would also be another additional element to promote economic integration and investment. Besides, liberalisation of skilled labour, trade and transport facilitation measures to be applied in the Western Balkans Region would be complementary measures to full bilateral cumulation as foreseen in PEM Convention.

10 FULL BILATERAL CUMULATION FOR CHAPTERS 50 TO 63:

The differences in preferential treatment between bilateral or diagonal cumulation and full (bilateral) cumulation may substantially appear in textile and clothing manufacturing.

For the sake of clarity and simplicity, only four stages of production process in textile and clothing sector will be accounted.

There are four following processes as the main stages of production in textile and clothing:

- Production of Fibres
- Production of Yarn
- Production of Fabric
- Finishing

To make the reader of this guide comprehend the concept of full cumulation, the product specific rules of the existing PEM Convention is referred in detail.

		Existing PEM Convention	Revised PEM Convention
HS heading	**Description of product**	**Working or processing, carried out on non-originating materials, which confers originating status**	
Ex 6202, ex 6204, ex 6206, ex 6209, and ex 6211	Women's, girls' and babies' clothing and clothing accessories for babies, embroidered	Manufacture from yarn (9) or Manufacture from unembroidered fabric, provided that the value of the unembroidered fabric used does not exceed 40 % of the ex-works price of the product (9) (9) See Introductory Note 6.	Weaving combined with making-up including cutting of fabric or Manufacture from unembroidered fabric, provided that the value of the unembroidered fabric used does not exceed 40 % of the ex-works price of the product (36) (36) See Introductory Note 7.

Introductory note 6 of the existing PEM Convention:	**Note 6:** 6.1. Where, in the list, reference is made to this Note, textile materials (with the exception of linings and interlinings), which do not satisfy the rule set out in the list in column 3 for the made-up product concerned, may be used, provided that they are classified in a heading other than that of the product and that their value does not exceed 8 % of the ex-works price of the product. 6.2. Without prejudice to Note 6.3, materials, which are not classified within Chapters 50 to 63, may be used freely in the manufacture of textile products, whether or not they contain textiles. *Example:* If a rule in the list provides that, for a particular textile item (such as trousers), yarn must be used, this does not prevent the use of metal items, such as buttons, because buttons are not classified within Chapters 50 to 63. For the same reason, it does not prevent the use of slide-fasteners, even though slide-fasteners normally contain textiles. 6.3. Where a percentage rule applies, the value of materials which are not classified within Chapters 50 to 63 must be taken into account when calculating the value of the non-originating materials incorporated.
Introductory note 7 of the revised PEM Convention	**Note 7 - Other tolerances applicable to certain textile products** 7.1. Where, in the list, reference is made to this Note, textile materials (with the exception of linings and interlinings), which do not satisfy the rule set out in the list in column 3 for the made-up product concerned, may be used, provided that they are classified in a heading other than that of the product and that their value does not exceed 15% of the ex-works price of the product. 7.2. Without prejudice to Note 6.3, materials, which are not classified within Chapters 50 to 63, may be used freely in the manufacture of textile products, whether or not they contain textiles. 7.3. Where a percentage rule applies, the value of non-originating materials which are not classified within Chapters 50 to 63 must be taken into account when calculating the value of the non-originating materials incorporated.

We will take the production of a clothing product to explain the full bilateral cumulation. Womens' clothing with Heading 6202 is taken example.

The specific rule for women's clothing offers two alternative rules.

Despite a different language than the existing PEM Convention is being employed in the first rule in the revised Convention, the first alternative rule of the revised Convention foresees a similar stage for attaining preferential origin for womens' clothing;

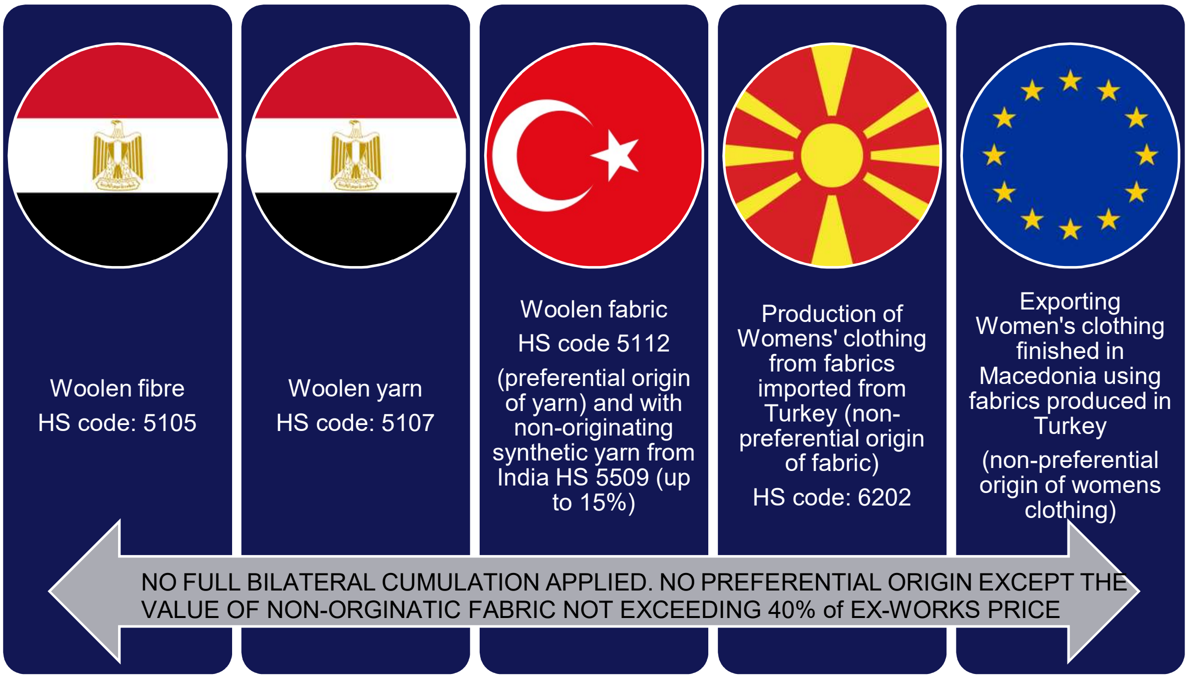
- weaving from yarn combined with making-up including cutting of fabric.

The second alternative rule to attain preferential origin for women's clothing is:

- manufacturing from unembroidered fabric provided that the value of unembroidered fabric does not exceed 40% of the ex-works price of the product

In order to explain the full bilateral cumulation in women's clothing, the first alternative rule will be taken into account.

Let's assume, woollen yarn (heading 5107) for weaving to produce woollen fabric is imported from Egypt to Turkey. Synthetic yarn of staple fibres (heading 5509) originated from India will also be imported to Turkey for weaving to produce a woollen fabric of heading 5112. Both Egypt and Turkey are not signatory of CEFTA though Turkey has FTAs with all CEFTA Parties except Kosovo. But they are contracting parties of the PEM Convention. India is not a contracting party of the Convention.



The product specific rule of woollen yarn requires spinning of natural fibres. Let's assume, this requirement is met in Egypt and woollen yarn has preferential origin when it is exported to Turkey for mixing with synthetic yarn to be imported from India.

The product specific rule for the production of woollen fabric requires the production of fabric to use natural and/or man-fibres. Therefore, the fabric to be produced in Turkey would not meet the required criteria, if it is exported to Macedonia as the rule requires the production from fibres whereas the production in Turkey uses imported yarn from Egypt and India.

In the case of production in Macedonia, the fabric used in producing womens' clothing should either be based on weaving of yarns to produce fabric together with cutting of that fabric. Alternatively, the production in Macedonia may use non-originating unembroidered fabric up to 40% of ex-works price of the product.

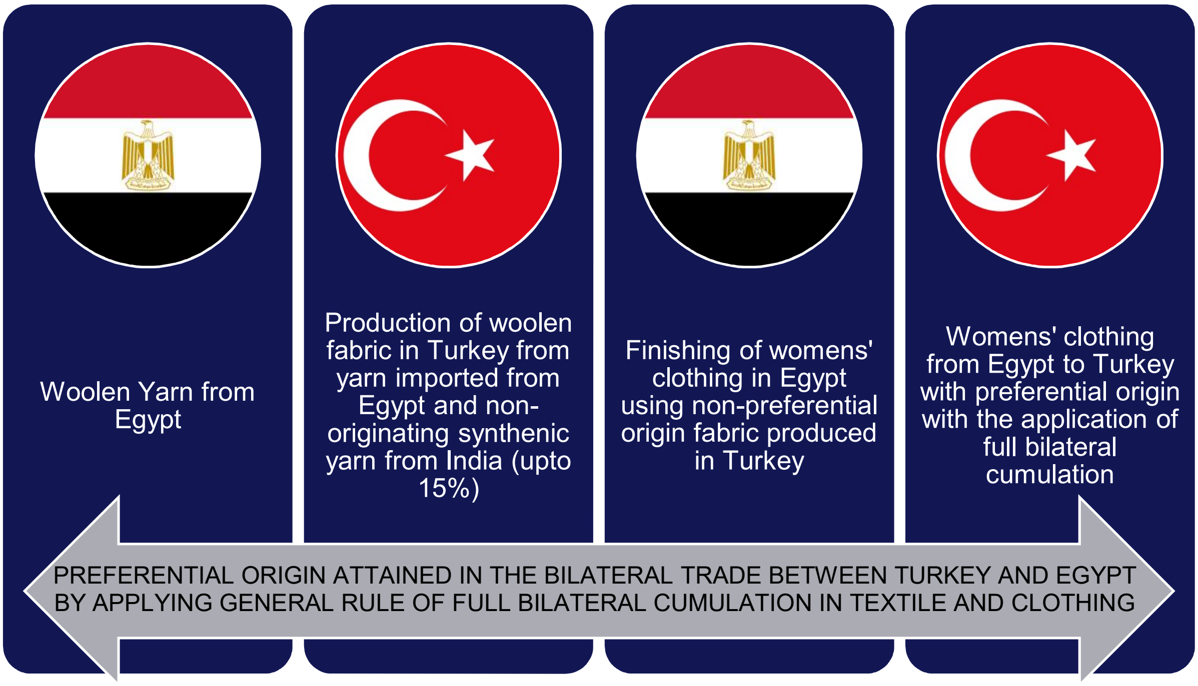
If we continue the following example of woollen fabric production in Turkey, the woollen fabric will not have a preferential origin but still can be used in the production of womens’ clothing up to 40% of the ex-works price of the final product. In this case neither bilateral nor diagonal nor full bilateral cumulation is applicable.

However, in case the production of womens’ clothing is made in Egypt by using the woollen fabric produced in Turkey incorporating woollen yarn from Egypt and synthetic yarn imported from India (up to 15% of the ex works price of mixed fabric using woollen yarn and synthetic yarn according to Introductory Note 6 of the Revised PEM Convention), the finished womens’ clothing will have preferential origin when it is exported to Turkey.

As the full bilateral cumulation is applicable for products covered by Chapters 50 to 63 in the bilateral trade between two FTA partners, the preferential origin can be attained to a finished clothing. This is different than bilateral or diagonal cumulation according to the current rules of the PEM Convention.

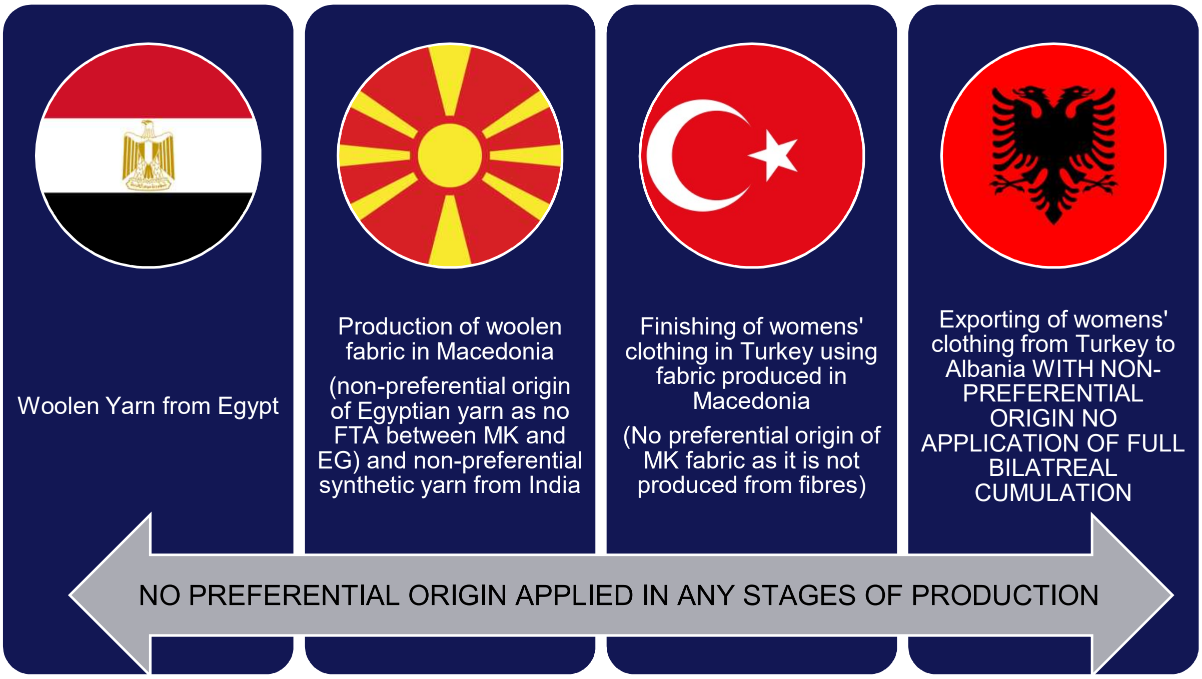
The diagonal cumulation takes into account the origin of material exported. In the case of above example, the production of fabric in Turkey does not meet preferential origin criteria when bilateral or diagonal cumulation rules of origin are applied. The fabric needs to be produced from fibres and it does not happen in the above example.

However, the full cumulation takes into account working and processing stages rather than origin of materials. Accordingly, working and processing carried out in the importing Contracting Party shall be considered as having been carried out in the exporting Contracting Party when the products undergo subsequent working and processing in this exporting Contracting Party. This rule is applicable in the bilateral trade, if the full cumulation is to include textile and clothing products (Chapters 50 to 63).



Under the example above, full bilateral cumulation in textile and clothing will not be applicable, if the finishing is made in one of the CEFTA Parties who signed FTA with Turkey. The reason for not having preferential origin if the finishing is made in CEFTA and exported to Turkey is that the full cumulation for textile and clothing is only applicable in bilateral trade as a general rule.

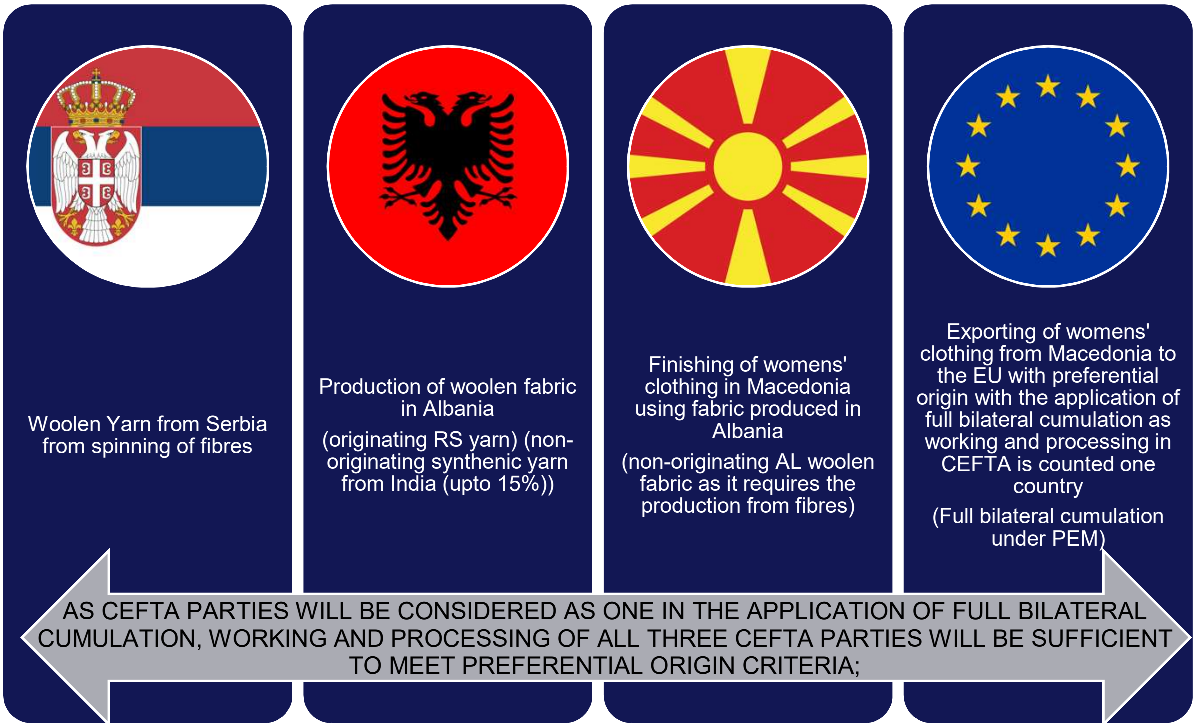
On the other hand, if we assume a fabric production capacity in one of the CEFTA Parties which has signed and ratified PEM Convention (e.g. Macedonia). Thus, woollen yarn is again imported from Egypt and synthetic yarn from India. Both countries will be treated as non-originating countries since Macedonia does not a FTA with Egypt and India is not a Contracting Party of the PEM Convention.



Production of woolen fabric requires usage of fibres not of yarn. In addition, there is no FTA between Macedonia and Egypt. The finishing operation of womens' clothing in Turkey using fabric produced in Macedonia will not have preferential origin if the value of fabric is not below 40% of the ex-works price of the final product. The finished womens' clothing cannot exported to Albania with preferential origin even though Macedonia, Turkey and Albania have Free Trade Agreements and identical rules of origin, and are Contracting Parties of the PEM Convention. The reason is that diagonal cumulation between Macedonia, Albania, and Turkey does not provide sufficient flexibility in the given clothing product to attain preferential origin and the full cumulation is only applicable in the bilateral trade but not diagonal/regional trade.

However, in case we assume that yarn is produced in one of the CEFTA Parties which has signed and ratified the PEM convention and exported to another CEFTA Party for the production of woollen fabric which is also contracting party of the PEM Convention. Then, the finishing would be made in another CEFTA Party and exported of one the SAP + Partners of CEFTA Parties who have signed and ratified the PEM Convention and have bilateral FTA with the relevant SAP Partner.

Thus, the above display will look like the one as follows:



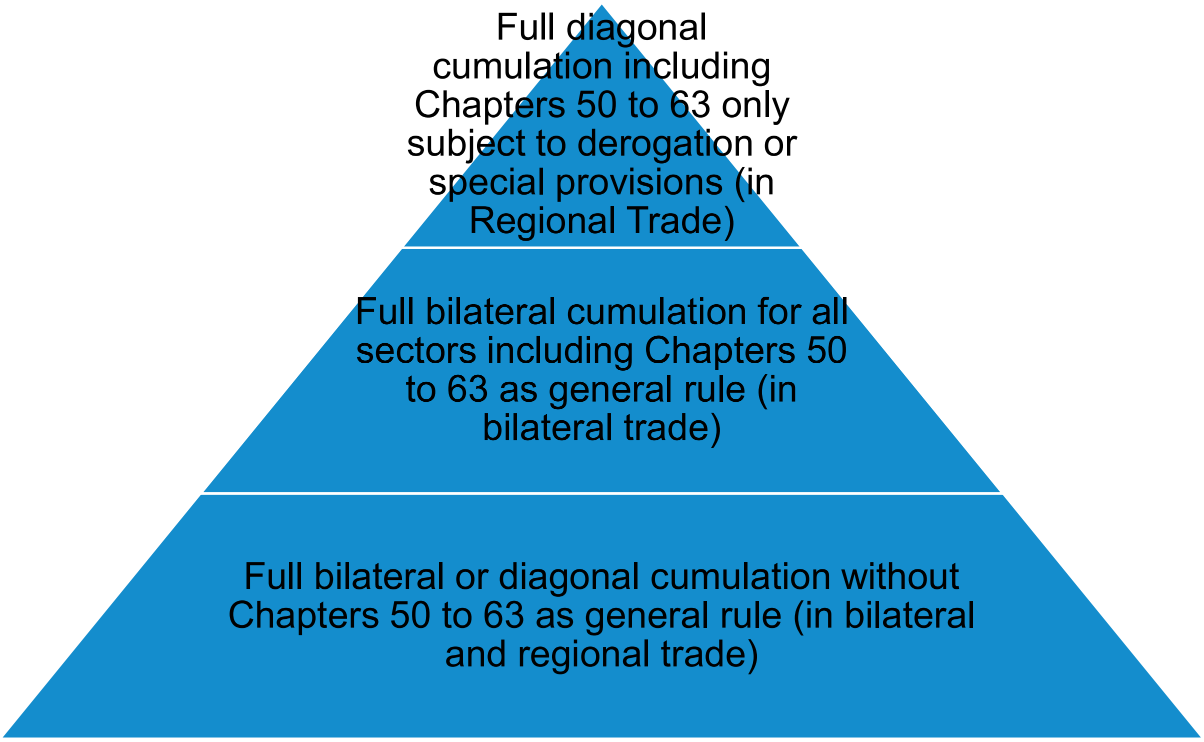
- The revised PEM Convention rules that for the purpose of the application of full bilateral cumulation, CEFTA Parties are to be considered as one Contracting Party.
- Thus, the finished womens' clothing in Macedonia will meet two stages of transformation. The production of yarn in Serbia, woollen fabric in Albania and finishing of fabric in Macedonia will be considered as having undertaken in one Contracting Party by the EU or EFTA or Turkey when the EU/EFTA/Turkey imports womens' clothing from Macedonia. The bilateral trade between EU/EFTA/Turkey and Macedonia will consider the earlier production processes of textile and clothing which may take place in other two CEFTA Parties as one and the full bilateral cumulation can be applied.

11 FULL DIAGONAL CUMULATION FOR CHAPTERS 50 TO 63:

The revised PEM Convention stipulates that the full diagonal cumulation for textile and clothing products might still be applicable, in case Contracting Parties may prefer to unilaterally extend the application of full bilateral cumulation to the importation of Chapters 50 to 63. The decision to extend full cumulation to diagonal trade, will have to be notified to the Joint Committee of the Convention as well as any modifications thereof.

In the case of CEFTA, CEFTA has already received a derogation on the basis of its decision 3/2015 regarding the application of full diagonal cumulation in the CEFTA regional trade for all the products including textile and clothing. Therefore, the full diagonal cumulation between CEFTA Parties together with the provision counting CEFTA Parties as one Contracting Party for the full bilateral cumulation in the revised Convention will facilitate the application of full diagonal cumulation in the regional trade.

Before closing this part, the following display needs to be taken into account to summarise the information given regarding full cumulation. The most extensive scope of the revised PEM Convention is provided to full cumulation for all sectors except Chapters 50 to 63. While, for restrictions are applied for full cumulation in textile and clothing as it is only applicable in bilateral trade by rule.


Full diagonal cumulation including Chapters 50 to 63 only subject to derogation or special provisions (in Regional Trade)
Full bilateral cumulation for all sectors including Chapters 50 to 63 as general rule (in bilateral trade)
Full bilateral or diagonal cumulation without Chapters 50 to 63 as general rule (in bilateral and regional trade)

12 OTHER RULES TO RESPECT:

There are some other rules provided by the PEM Convention which needs to be respected whenever the conditions described in the following appear.

12.1 PRINCIPLE OF TERRITORIALITY:

Similar to the existing PEM Convention, the revised Convention also requires attaining the preferential origin according to the Convention to be fulfilled without any interruption in a Contracting Party concerned. It means that the products in production process are not expected to leave the cumulation zone.

In case a consignment is left the cumulation zone, the originating products exported to outside the zone shall be considered as non-originating unless the following conditions are demonstrated to the satisfaction of the customs authorities.

- The returned products are the same as those which were exported
- They have not undergone any operations beyond that necessary to preserve then in good conditions when they are outside of the cumulation zone or while being exported

The revised Convention allows outward processing with the condition that the total added-value acquired outside the exporting Contracting Party does not exceed 10% of the ex-works price of the final product which is the preferential origin is claimed.

12.2 NON-ALTERATION:

Similar to the existing PEM Convention, the revised PEM Convention prevents the products satisfying preferential origin requirements to altered, transformed in any way or being subject to operations other than the following. The following operations are allowed and might be deemed as non-altering operations of preferential origin.

- to preserve them in good condition
- adding or affixing marks, labels, seals or any documentation to ensure compliance with specific domestic requirements of the importing Contracting Party carried out under customs supervision in the countries of transit (such as sticking strip stamps over bottles of alcoholic beverages for excise purposes)
- Splitting prior to being declared for home use
- Storage of products or consignment provided that they remain under customs supervision in the third countries of transit
- Splitting of consignment may take place provided that they remain under customs supervision in the third countries of splitting

The importer or its representative might be asked to provide the evidences of compliance at any time. The following documents are listed as notable evidences among others:

- Contractual transport documents such as bills of lading,
- Factual or concrete evidences based on marking or numbering of packages,
- Any evidence related to the goods themselves,
- A certificate if non-manipulation provided by the customs authorities of the countries of transit or splitting or any other documents demonstrating that the goods remained under customs supervision in the countries of transit or splitting.

12.3 GENERAL TOLERANCE RULE:

The revised PEM Convention offers an increased general tolerance rule than the one of 10% of ex-works price as foreseen in the existing PEM Convention. The general tolerance rule allows the use of non-originating materials up to a certain threshold even if the product specific rules cannot be met. According to the Revised PEM Convention, the new general tolerance rule is either 15% of the net weight of the products falling within Chapters 2 and 4 to 24 other than processed fishery products of Chapter 16 or 15% of the ex-works price of the product for other products that the above mentioned.

General tolerance rule does not allow the thresholds mentioned in the product specific rules can be exceeded.

There are higher tolerance rules foreseen for products within Chapters 50 to 63. Tolerances for specific textile and clothing prod0 ucts can be found in the explanatory notes of the product specific rules.

12.4 DRAWBACK:

The revised PEM Convention provides a substantial change on the duty drawback regime. The existing PEM Convention has the prohibition of duty draw back as a general principle though exceptions are either listed in the Convention or derogations are provided through special provisions.

Whereas, the duty drawback is allowed by the revised PEM Convention except the one in preferential trade of products falling within Chapters 50 to 63.

The prohibition of duty drawback on Chapters 50 to 63 still remains as a general rule. However, duty drawback might be allowed in the application of full cumulation either as full bilateral cumulation or full cumulation provided that the derogation for unilateral implementation of full diagonal cumulation is notified.

If we take into account the above example, the woollen yarn produced in one of the CEFTA Parties, which signed and contracted PEM Convention may be using wool fibre imported from another country which that CEFTA Party does not have a FTA.

Duties need to be paid for imported wool fibre by the producer of yarn in Serbia. No duty drawback is applicable as there is no FTA between Serbia and Egypt, and there is no application of duty drawback.

When the woollen yarn is exported to Albania for production of fabric, it will be exported with supplier’s declaration. The woollen yarn produced in Serbia will still have non-originating status in Albania. However, it will be eligible for duty drawback as the duty drawback is allowed by CEFTA and it is notified to the PEM Convention.

In case the Albanian producer of fabric also uses synthetic yarn to mix with woollen yarn (up to 15%), the duties need to be paid for the imported synthetic yarn from India.

When Albanian fabric is exported to Macedonia with supplier’s declaration, the Albanian fabric will have non-preferential status but will be eligible for duty drawback as the duty drawback is allowed by CEFTA and notified to the PEM Convention.

The final product of women clothing produced in Macedonia will have preferential origin status when it is exported to EU, EFTA or Turkey.

13 CERTIFICATION - PROOF OR ORIGIN

If it is to be referred to the methodology explained in the introductory part, the implementation guide of PEM Convention can be summarised as follows:

The rules to allow attaining preferential origin are regulated by the PEM Convention and the origin protocols of free trade agreements between the Contracting Parties of PEM Convention.

Once these rules are met as prescribed by the PEM Convention and the corresponding FTA, it should be proven/confirmed either by self-declaration or by a certificate issued by the Customs Authorities. The overall name of this certification is proofs of origin.

Unlike the existing PEM Convention, the revised PEM Convention will require either EUR 1 Movement Certificate or origin declaration. The origin declaration can be issued for any consignments consisting one or more packages containing originating products whose total value does not exceed EUR 6000 or by an approved exporter in any Contracting Party.

Whereas, suppliers declaration or long term supplier declaration is required when originating products are manufactured by non-preferential originating products undergone working or processing in other Contracting Parties which full cumulation are applied with.

In the importation of products the total of which does not exceed EUR 500 in the case of small packages from private persons to private persons or for imported products forming part of travellers' personal luggage whose total value does not exceed EUR 1200, these products might be admitted as originating statues without requiring submission of a proof of origin.

In short, the following table may summarise the types of certification required.

Type of certificate	Type of cumulation	Value threshold	Remarks
EUR 1	All types of cumulation	> EUR 6 000	
Origin declaration	All types of cumulation	< EUR 6 000 (by all traders) No threshold for approved exporters	
Exempted from submission of proof origin	n.a.	< EUR 500 (small packages from private persons to private persons) Lower than < EUR 1 200 (travelers' personal luggage)	
Suppliers declaration	Full cumulation		Required for issuing EUR 1 or origin declaration in final production

EUR 1 MOVEMENT CERTIFICATE:

EUR 1 will become one and only movement certificate to be used in the implementation of the PEM Convention. Whereas, the existing PEM Convention also foresees EUR-MED movement certificate and EUR-MED origin declaration particularly in trade with Mediterranean countries or between Mediterranean countries of the PEM Convention. Once the revised PEM Convention is adopted and its implementation starts, EUR 1 will be the only movement certificate to be submitted.

RULE: EUR 1 shall be issued by the customs authorities of the exporting Contracting Party on application having been made in writing by the exporter or by his authorised representative.

The exporter or his representative should fill in both the movement certificate EUR 1 and the application form, specimens of which are attached to this guide.[i]

RULE: The applicant exporter shall be prepared at any time, at the request of the customs authorities of the exporting Contracting Party, all appropriate documents proving the originating status of the products concerned as well as the fulfilment of other conditions.

The customs authorities shall have the right to call for any evidence and to carry out any inspection of the exporter's accounts or any other check considered appropriate.

In particular, the customs authorities shall check whether the space reserved for the description of the products has been completed in such a manner as to exclude all possibility of fraudulent additions.

EUR 1 movement certificate shall be issued by the customs authorities and made available to the exporter as soon as actual exportation has been effected or ensured.

ISSUE OF EUR 1 RETROSPECTIVELY:

EUR 1 may also be issued after exportation of the products if one of the following situations appear;

- Not issued at the time of exportation because of errors or involuntary omissions or special circumstances
- EUR 1 was issued but was not accepted at importation for technical reasons and this incident is demonstrated to the satisfaction of the customs authorities
- Final destination of the products was not known at the time of exportation and was determined during their transportation or storage and after possible splitting of consignments

The customs authorities may issue EUR 1 retrospectively within two years from the date of exportation.

ISSUE OF A DUPLICATE EUR 1:

In the event of theft, loss or destruction of EUR, the exporter may apply to the customs authorities which issued it for a duplicate made out on the basis of the export documents in their possession.

The duplicate shall bear the date of issue of the original movement certificate EUR 1. The duplicate shall take effect as from that date.

ORIGIN DECLARATION:

An origin declaration may be made out by the following:

- An approved exporter the status of which was granted by the customs authorities in accordance with their national legislation
- Any exporter for any consignment consisting of one or more packages containing originating products the total value of which does not exceed EUR 6 000.

RULE: The exporter is required to type, stamp or print on the invoice, the delivery note or another commercial document the text of origin declaration which is given below.[ii]

If the text of origin declaration is handwritten, it shall be written in ink in printed characters.

RULE: Origin declarations shall bear the original signature of the export in manuscript. An approved exporter shall not be required to sign such declarations upon the condition that he gives the customs authorities of exports a written undertaking that he accepts full responsibility for any origin declaration identifying himself as if it had been signed by him.

RULE: An origin declaration may be made out by the exporter when the products are exported or after the exportation (retrospective origin declaration) on condition that it is presented in the importing country within two years after the importation.

In case of splitting of a consignment, and if the two-year deadline is respected, the retrospective origin declaration shall be made out by the approved exporter of the Contracting Party.

APPROVED EXPORTERS:

The Customs Authorities of the Exporting Contracting Party may authorise any exporter in that Contracting Party to make out origin declarations irrespective of value of the exported concerned products.

According to the European Union Customs Code, the following information need to be provided by the applicants for authorized exporter status.

Data relating to the applicant:

Company:

- Corporate name, EORI, national identification number, address of the company (administration or establishment which holds proofs of origin depending on the entity for which the status will be granted)

Contact person:

- name, surname, e-mail address, phone number, position in the company

Commercial activity of the applicant (trader or manufacturer) Data on products and manufacturing:

- Address of manufacturing site and/or storage of the products
- Products intended to be exported (HS heading 4 digits and nature of the product)
- Intended country / countries of destination
- Fulfilment of the origin rules in the framework of the different preferential arrangements, explanation of the manufacturing process, the input materials (classification, value, origin)

Data on exports:

Regularity of exports under preferential treatment **(unnecessary in trade under agreements where the element of frequency is not included**) **(in the revised PEM Convention the element of frequency is not required)**, if available

If the goods to be exported will be distributed from other Member States listing relevant Member States and where appropriate customs authorities and the name, address and place of business of the relevant enterprise.

Data on the organisation of the company:

- Name of employee responsible for preferential transactions
- Name of employee responsible for signing origin declarations
- Accounting system for differentiating goods with / without preferential origin status (also information about IT system in use)
- Treatment of preferential documents (evidence of origin the applicant is going to hold)
- Documents that must be detained by the applicant
- Book-keeping system for guaranteeing that the applicant is in possession of all documents proving preferential origin
- Use of a custom procedure in the processing of the product, in particular authorisation for inward processing, in order to avoid any incompatibility with a prohibition of duty drawback clause.

Commitments of the exporter in case the authorisation is issued:

- to supply at all times evidence of the originating status of the exported goods
- to keep the evidence of the originating status three or more years (depending on the period mentioned in the preferential arrangement)
- to make out an origin declaration only for products for which all evidence or accounting elements required to prove the preferential origin are held at the time of the export

Other:

- date and signature of the applicant
- indicate whether the application for the AE authorisation is the first or whether it concerns an extension or amendment;
- other authorisation in use (e.g AEO), including the number of the authorisation
- Binding Origin Information issued when the possibility of not signing origin declarations (a signature waiver) is requested a written undertaking has to be submitted.

13.1 VALIDITY OF PROOF OF ORIGIN:

A proof of origin (EUR 1 or origin declaration) has **the validity of 10 months** from the date of issue or making out in the exporting Contracting Party. It should be submitted within that period to the Customs Authority of the importing Contracting Party.

Only under exceptional circumstances the Customs Authority of the importing Contracting Party may accept a belated proof origin for the purpose of applying the tariff preferences.

In other cases of belated presentation, the Customs Authority of the importing Contracting Party may accept the proofs of origin where the products have been presented to customs before the said final date.

13.2 SUPPLIER's DECLARATION:

Supplier's declaration needs to be submitted to the Customs Authority of the exporting Contracting Party when a final product may obtain preferential origin through applying full cumulation.

When a movement certificate EUR 1 is issued or an origin declaration under full cumulation, the following information needs to be taken into account.

- The information on goods supplied for the production of originating goods,
- Tariff heading of non-originating materials used
- Description of non-originating materials,
- Value of non-originating materials
- Total added value acquired in other Contracting Parties where earlier working and processing are made

In case, one of the above examples given for full cumulation applies, the supplier's declarations need to be made in the following bilateral trade.

The supplier's declaration will serve as evidence of the working or processing undergone in a Contracting Party for the production of materials to be incorporated into goods which may attain the preferential origin according to the rules of the PEM Convention.

For the example above, woollen yarn to be produced in Serbia will not have preferential origin when it is exported to Albania as the Serbian yarn was be produced from fibre which went through spinning in Egypt. Therefore, the product specific rule of woollen yarn is not met. However, the exports of woollen yarn from Serbia to Albania might be accompanied with supplier's declaration.

The production of fabric in Albania will not also meet the requirements of product specific rule for woollen fabric as it requires the production of fibres. Therefore, the Albanian fabric will not benefit from preferential origin when it is exported to Macedonia. The exports of non-originating Albanian fabric to Macedonia might be accompanied with supplier's declaration.

When a Macedonian exporter of women's clothing which was finished in Macedonia using non-eligible Albanian fabric produced from non-eligible Serbian yarn applies its Customs Authorities for a movement certificate EUR 1 to export the women's clothing to EU, EFTA or Turkey, it should also submit the supplier's declarations to prove working and processing undergone other CEFTA Parties to meet the requirements of full bilateral cumulation for Chapters 50 to 63.

There are two types of supplier's declaration.

The first one is required to be made out for each consignment in the form given below by the supplier of each consignment on a sheet of paper annexed to the invoice, the delivery note or any other commercial document describing the goods in sufficient detail.[iii]

The second type is called as long term supplier's declaration and is only applicable when a supplier regularly supplies a particular customer with goods for which the working or processing undergone in a Contracting Party is expected to remain constant for a period of time. Under this circumstance, that supplier may provide a single supplier's declaration to cover subsequent consignments of those goods. A long term supplier's declaration may normally be valid for a period of up to **two years** from the date of making out the declaration.

The Customs Authorities may determine the rules describing conditions under which period of two years is to be extended.

The following form of long term supplier's declaration is used[iv].

The supplier needs to provide the long-term supplier's declaration before or during his first consignment. The supplier needs to inform his customer immediately, if the long term supplier's declaration is no long applicable to the goods supplied.

13.3 ACCOUNTING SEGREGATION:

If originating and non-originating fungible materials are used in the working or processing of a product, economic operators may keep materials segregated in its accounts without separating them physically and keeping them on separate stocks.

The condition to apply the accounting segregation is that materials or products should be fungible which means that they should be of the same kind and commercial quality, with the same technical and physical characteristics and cannot be distinguished from one another.

Contracting Parties may require that the application of accounting segregation is subject to prior authorization by the Customs Authorities.

The Customs Authorities may grant the authorization subject to any conditions they deem appropriate and shall monitor the use made of the authorization.

Through the use of accounting segregation it must be ensured that no more products can be considered as originating in the exporting Contracting Party than would have been the case if a method of physical segregation of the stocks had been used.

If the same example of full cumulation in CEFTA is applied, the Macedonian women's clothing producer may be entitled to use accounting segregation. It can segregate the fabrics imported from Albania on its account but not physically. It can ensure that a certain amount of women's clothing can be produced as originating when it is exported to EU, EFTA or Turkey. However, the rest of Albanian fabric would be used for the production of women's clothing to be exporting to another country which full cumulation would not be applicable. Under this example, fungible product will be the fabric imported from Albania.

14 ANNEXES:

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i

Specimens of movement certificate EUR.1 and application for a movement certificate EUR.1

Printing instructions

1. Each form shall measure 210 x 297 mm; a tolerance of up to minus 5 mm or plus 8 mm in the length may be allowed. The paper used must be white, sized for writing, not containing mechanical pulp and weighing not less than 25 g/m^2. It shall have a printed green guilloche pattern background making any falsification by mechanical or chemical means apparent to the eye.
2. The competent authorities of the contracting parties may reserve the right to print the forms themselves or may have them printed by approved printers. In the latter case, each form must include a reference to such approval. Each form must bear the name and address of the printer or a mark by which the printer can be identified. It shall also bear a serial number, either printed or not, by which it can be identified.

MOVEMENT CERTIFICATE

1. Exporter (Name, full address, country)	**EUR.1** No **A** 000.000 See notes overleaf before completing this form.
	2. Certificate used in preferential trade between .... **And** .... (Insert appropriate countries, groups of countries or territories)
3. Consignee (Name, full address, country) (Optional)	**4. Country, group of countries or territory in which the products are considered as originating** / **5. Country, group of countries or territory of destination**
6. Transport details (Optional)	**7. Remarks**

8. Item number; Marks and numbers; Number and kind of packages [(1)]**; Description of goods**	**9. Gross mass (kg) or other measure (litres, m³., etc.)**	**10. Invoices** (Optional)

11. CUSTOMS ENDORSEMENT	12. DECLARATION BY THE EXPORTER
Declaration certified Export document (2) Form ....No ………... Of ………………………………………. Customs office ....…… Issuing country or territory .... Stamp .... Place and date ……………...................... .... …….. (Signature)	I, the undersigned, declare that the goods described above meet the conditions required for the issue of this certificate. Place and date ………………....................... .... (Signature)

13. REQUEST FOR VERIFICATION, to	14. RESULT OF VERIFICATION
	Verification carried out shows that this certificate (1) ☐ was issued by the customs office indicated and that the information contained therein is accurate. ☐ does not meet the requirements as to authenticity and accuracy (see remarks appended).
Verification of the authenticity and accuracy of this certificate is requested. ....……………............................ .... (Place and date) Stamp ....…… (Signature)	......................................………………………………. (Place and date) Stamp ....… (Signature) (1) Insert X in the appropriate box.

NOTES

1. Certificate must not contain erasures or words written over one another. Any alterations must be made by deleting the incorrect particulars and adding any necessary corrections. Any such alteration must be initialled by the person who completed the certificate and endorsed by the Customs authorities of the issuing country or territory.
2. No spaces must be left between the items entered on the certificate and each item must be preceded by an item number. A horizontal line must be drawn immediately below the last item. Any unused space must be struck through in such a manner as to make any later additions impossible.
3. Goods must be described in accordance with commercial practice and with sufficient detail to enable them to be identified.

APPLICATION FOR A MOVEMENT CERTIFICATE

<table>
<tr><td rowspan="2">1. **Exporter** (Name, full address, country)</td><td colspan="2">**EUR.1** No **A** 000.000</td></tr>
<tr><td colspan="2">See notes overleaf before completing this form.</td></tr>
<tr><td>3. **Consignee** (Name, full adress, country) (Optional)</td><td colspan="2">2. **Application for a certificate to be used in preferential trade between**
....
and
....
(Insert appropriate countries or groups of countries or territories)</td></tr>
<tr><td></td><td>4. **Country, group of countries or territory in which the products are considered as originating**</td><td>5. **Country, group of countries or territory of destination**</td></tr>
<tr><td>6. **Transport details** (Optional)</td><td colspan="2">7. **Remarks**</td></tr>
</table>

8. Item number; Marks and numbers; Number and kind of packages (1) Description of goods	9. Gross mass (kg) or other measure (litres, m^3., etc.)	10. Invoices (Optional)

(1) If goods are not packed, indicate number of articles or state « in bulk » as appropriate

DECLARATION BY THE EXPORTER

I, the undersigned, exporter of the goods described overleaf,

DECLARE that the goods meet the conditions required for the issue of the attached certificate;

SPECIFY as follows the circumstances which have enable these goods to meet the above conditions:

....

....

....

....

SUBMIT the following supporting documents ([i]):

....

....

....

....

UNDERTAKE to submit, at the request of the appropriate authorities, any supporting evidence which these authorities may require for the purpose of issuing the attached certificate, and undertake, if required, to agree to any inspection of my accounts and to any check on the processes of manufacture of the above goods, carried out by the said authorities;

REQUEST the issue of the attached certificate for these goods.

....

(Place and date)

....

(Signature)

[ii] TEXT OF ORIGIN DECLARATION IN ENGLISH

English version

The exporter of the products covered by this document (customs authorization No .... (1)) declares that, except where otherwise clearly indicated, these products are of... (2) Preferential origin.

....
.... (3) (Place and date)

....
.... (4) (Signature of the exporter, in addition the name of the person signing the declaration has to be indicated in clear script)

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(1) When the origin declaration is made out by an approved exporter, the authorisation number of the approved exporter must be entered in this space. When the origin declaration is not made out by an approved exporter, the words in brackets shall be omitted or the space left blank.

(2) Origin of products to be indicated. When the origin declaration relates in whole or in part, to products originating in Ceuta and Melilla, the exporter must clearly indicate them in the document on which the declaration is made out, by means of the symbol 'CM'.

(3) These indications may be omitted if the information is contained on the document itself.

(4) In cases where the exporter is not required to sign, the exemption of signature also implies the exemption of the name of the signatory.

iii

Supplier's declaration

The supplier's declaration, the text of which is given below, must be made out in accordance with the footnotes. However, the footnotes do not have to be reproduced.

S U P P L I E R ' S D E C L A R A T I O N

for goods which have undergone working or processing in Contracting parties of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin without having obtained preferential origin status

I, the undersigned, supplier of the goods covered by the annexed document, declare that:

1. The following materials which do not originate in [indicate the name of the relevant Contracting Party] have been used in [indicate the name of the relevant Contracting Party] to produce these goods:

Description of the goods supplied (1)	Description of non-originating materials used	Heading of non-originating materials used (2)	Value of non-originating materials used (2)(3)
		Total value	

2. All the other materials used in [indicate the name of the relevant Contracting Party] to produce these goods originate in [Indicate the name of the relevant Contracting Party];
3. The following goods have undergone working or processing outside [Indicate the name of the relevant Contracting Parties] in accordance with Article 13 of Appendix I and have acquired the following total added value there:

Description of the goods supplied	Total added value acquired outside [Indicate the name of the relevant Contracting Parties] (4)
	(Place and date)

(Address and signature of the supplier; in addition the name of the person signing the declaration has to be indicated in clear script)

(1) When the invoice, delivery note or other commercial document to which the declaration is annexed relates to different kinds of goods, or to goods which do not incorporate non-originating materials to the same extent, the supplier must clearly differentiate them.

Example:

The document relates to different models of electric motor of heading 8501 to be used in the manufacture of washing machines of heading 8450. The nature and value of the non-originating materials used in the manufacture of these motors differ from one model to another. The models must therefore be differentiated in the first column and the indications in the other columns must be provided separately for each of the models to make it possible for the manufacturer of washing machines to make a correct assessment of the originating status of his products depending on which model of electrical motor he uses.

(2) The indications requested in these columns should only be given if they are necessary.

Examples:

The rule for garments of ex Chapter 62 says that non-originating yarn may be used. If a manufacturer of such garments in Algeria uses fabric imported from the EU which has been obtained there by weaving non-originating yarn, it is sufficient for the EU supplier to describe in his declaration the non-originating material used as yarn, without it being necessary to indicate the heading and value of such yarn.

A producer of iron of heading 7217 who has produced it from non-originating iron bars should indicate in the second column 'bars of iron'. Where this wire is to be used in the production of a machine, for which the rule contains a limitation for all non-originating materials used to a certain percentage value, it is necessary to indicate in the third column the value of non-originating bars.

(3) 'Value of materials' means the customs value at the time of importation of the non-originating materials used, or, if this is not known and cannot be ascertained, the first ascertainable price paid for the materials in [Indicate the name of the relevant Contracting Party].

The exact value for each non-originating material used must be given per unit of the goods specified in the first column.

(4) 'Total added value' shall mean all costs accumulated outside [Indicate the name of the relevant Contracting Party], including the value of all materials added there. The exact total added value acquired outside [Indicate the name of the relevant Contracting Party] must be given per unit of the goods specified in the first column.

iv

Long-term supplier's declaration

The long-term supplier's declaration, the text of which is given below, must be made out in accordance with the footnotes. However, the footnotes do not have to be reproduced.

L O N G - T E R M   S U P P L I E R ' S   D E C L A R A T I O N

for goods which have undergone working or processing in Contracting parties of the Regional Convention on pan-Euro-Mediterranean preferential rules without having obtained preferential origin status

I, the undersigned, supplier of the goods covered by the annexed document, which are regularly supplied to (1) ……………. declare that:

1. The following materials which do not originate in [indicate the name of the relevant Contracting Party] have been used in [indicate the name of the relevant Contracting Party] to produce these goods:

Description of the goods supplied (2)	Description of non-originating materials used	Heading of non-originating materials used (3)	Value of non-originating materials used (3)(4)
		Total value	

2. All the other materials used in [indicate the name of the relevant Contracting Party] to produce these goods originate in [Indicate the name of the relevant Contracting Party];
3. The following goods have undergone working or processing outside [Indicate the name of the relevant Contracting Parties] in accordance with Article 13 of Appendix I and have acquired the following total added value there:

Description of the goods supplied	Total added value acquired outside [Indicate the name of the relevant Contracting Parties] (5)

This declaration is valid for all subsequent consignments of these goods dispatched

from ……………………………………………..

to ……………………………………………… (6)

I undertake to inform …………………………….. (1) immediately if this declaration is no longer valid.

(Place and date)
(Address and signature of the supplier; in addition the name of the person signing the declaration has to be indicated in clear script)

(1) Name and address of the customer

(2) When the invoice, delivery note or other commercial document to which the declaration is annexed relates to different kinds of goods, or to goods which do not incorporate non-originating materials to the same extent, the supplier must clearly differentiate them.

Example:

The document relates to different models of electric motor of heading 8501 to be used in the manufacture of washing machines of heading 8450. The nature and value of the non-originating materials used in the manufacture of these motors differ from one model to another. The models must therefore be differentiated in the first column and the indications in the other columns must be provided separately for each of the models to make it possible for the manufacturer of washing machines to make a correct assessment of the originating status of his products depending on which model of electrical motor he uses.

(3) The indications requested in these columns should only be given if they are necessary.

Examples:

The rule for garments of ex Chapter 62 says that non-originating yarn may be used. If a manufacturer of such garments in Algeria uses fabric imported from the EU which has been obtained there by weaving non-originating yarn, it is sufficient for the EU supplier to describe in his declaration the non-originating material used as yarn, without it being necessary to indicate the heading and value of such yarn.

A producer of iron of heading 7217 who has produced it from non-originating iron bars should indicate in the second column 'bars of iron'. Where this wire is to be used in the production of a machine, for which the rule contains a limitation for all non-originating materials used to a certain percentage value, it is necessary to indicate in the third column the value of non-originating bars.

(4) 'Value of materials' means the customs value at the time of importation of the non-originating materials used, or, if this is not known and cannot be ascertained, the first ascertainable price paid for the materials in [Indicate the name of the relevant Contracting Party].

The exact value for each non-originating material used must be given per unit of the goods specified in the first column.

(5) 'Total added value' shall mean all costs accumulated outside [Indicate the name of the relevant Contracting Party], including the value of all materials added there. The exact total added value acquired outside [Indicate the name of the relevant Contracting Party] must be given per unit of the goods specified in the first column.

(6) Insert dates. The period of validity of the long-term supplier's declaration should not normally exceed 12 months, subject to the conditions laid down by the customs authorities of the country where the long-term supplier's declaration is made out.