

## Examples of Applications of Chapter 3 ( Rules of Origin)

### 1. Regional Value Content (RVC)

#### 1.1 Example of the calculation of RVC provided for in paragraph 1 of Article 27.

Company A produces refrigerators in Party A using non-originating materials and plans to export them to Party B under the Agreement.

The requirements for qualification as an originating good for refrigerator (HS8418.10) are stipulated in paragraph 1 of Article 26 of the Agreement as follows:

1. For the purposes of paragraph (b) of Article 24, a good shall qualify as an originating good of a Party if:

- (a) *the good has a regional value content (hereinafter referred to as "RVC"), calculated using the formula set out in Article 27, of not less than forty (40) per cent, and the final process of production has been performed in the Party; or*
- (b) *all non-originating materials used in the production of the good have undergone in the Party a change in tariff classification (hereinafter referred to as "CTC") at the 4-digit level (i.e. a change in tariff heading) of Harmonized System.*

Company A has to prove that the refrigerator satisfies either the CTC-based rule at the 4-digits level or the 40% RVC-based rule. If Company A chooses the 40% RVC-based rule in this case, Company A has to calculate the RVC in the way illustrated below.

Company A's manufacturing costs of the refrigerator:

Material/Parts	Sources	Originating Status	Value US\$
<b>Parts a</b>	<b>Party A</b>	<b>originating</b>	<b>300</b>
<b>Parts b</b>	<b>Party A</b>	<b>originating</b>	<b>100</b>
Parts c	China	non-originating	100
Parts d	China	non-originating	100
Parts e	Unknown	non-originating	200
Other Costs	N/A	N/A	200
F.O.B. Price	-	-	1,000

The formula for calculating the RVC is:

$$RVC = \frac{FOB - VNM}{FOB} \times 100\%$$

“FOB” is, except as provided for in paragraph 3 of Article 27 of the Agreement, the free-on-board value of a good, inclusive of the cost of transport from the producer to the port or site of final shipment abroad.

“RVC” is the RVC of a good, expressed as a percentage.

“VNM” is the value of non-originating materials used in the production of a good.

The calculation of RVC of the refrigerator in this example is:

$$RVC = \frac{\$1,000 - \$400 \text{ (Parts c, d and e)}}{\$1,000} \times 100 = 60\% \quad 40\%$$

The above result of the calculation shows that the refrigerator qualifies as an originating good of Party A under the Agreement.

## 1.2 Example of the use of the method provided for in paragraph 5 of Article 27

Company A produces refrigerators in Party A using non-originating materials and plans to export them to Party B under the Agreement.

The requirements for qualification as an originating good for refrigerator (HS8418.10) are stipulated in paragraph 1 of Article 26 of the Agreement as follows:

1. For the purposes of paragraph (b) of Article 24, a good shall qualify as an originating good of a Party if:

- (a) *the good has a regional value content (hereinafter referred to as "RVC"), calculated using the formula set out in Article 27, of not less than forty (40) per cent, and the final process of production has been performed in the Party; or*
- (b) *all non-originating materials used in the production of the good have undergone in the Party a change in tariff classification (hereinafter referred to as "CTC") at the 4-digit level (i.e. a change in tariff heading) of Harmonized System.*

Company A has to prove that the refrigerator satisfies either the CTC-based rule at 4-digits level or the 40% RVC based rule. Company A chooses the 40% RVC-based rule.

Company A purchased Parts b (electric motor) from Company X in Japan. To calculate the RVC of the refrigerator, Company A has to obtain from company X the information concerning the originating status of Parts b.

Manufacturing costs of Parts b (electric motor):

Material/Parts	Sources	Originating Status	Value US\$
<b>Sub-parts b1</b>	<b>Party A</b>	<b>originating</b>	<b>80</b>
Sub-parts b2	China	non-originating	40
Other Costs	N/A	N/A	20
F.O.B. Price	-	-	140

The requirements for qualification as an originating good for electric motor (HS8501.10) are stipulated in paragraph 1 of Article 26 of the Agreement as follows:

1. For the purposes of paragraph (b) of Article 24, a good shall qualify as an originating good of a Party if:

- (a) *the good has a regional value content (hereinafter referred to as "RVC"), calculated using the formula set out in Article 27, of not less than forty (40) per cent, and the final process of production has been performed in the Party; or*
- (b) *all non-originating materials used in the production of the good have undergone in the Party a change in tariff classification (hereinafter referred to as "CTC") at the 4-digit level (i.e. a change in tariff heading) of Harmonized System.*

Company X chooses the 40% RVC-based rule and calculated RVC of Parts b as follows:

$$\text{RVC} = \frac{\$140 - \$40 (\text{Sub - parts b2})}{\$140} \times 100 = 71\% \quad 40\%$$

The above result of the calculation shows that Parts b qualifies as an originating material of Party A under the Agreement.

Company A's manufacturing costs of the refrigerator:

Material/Parts	Sources	Originating Status	Value US\$
<b>Parts a</b>	<b>Party A</b>	<b>originating</b>	<b>180</b>
<b>Parts b</b>	<b>Party A</b>	<b>originating</b>	<b>140</b>
<b>Sub-Parts b1</b>	<b>Party A</b>	<b>originating</b>	<b>80</b>
Sub-Parts b2	China	non-originating	40
Other Costs	N/A	N/A	20
Parts c	China	non-originating	280
Parts d	China	non-originating	200
Parts e	India	non-originating	100
Other Costs	N/A	N/A	100
F.O.B. Price	--	--	1,000

The calculation of the RVC of the refrigerator in this example is;

$$\text{RVC} = \frac{\$1,000 - \$580 \text{ (Parts c, d and e)}}{\$1,000} \times 100 = 42\% \quad 40\%$$

The above result of the calculation shows that the refrigerator qualifies as an originating good of Party A under the Agreement.

If, hypothetically, there were not such a provision as paragraph 5 of Article 27, the refrigerator would not qualify as an originating good of Party A as the calculation below shows:

$$\text{RVC} = \frac{\$1,000 - (\$40 \text{ (Sub - Parts b2)} + \$580 \text{ (Parts c, d and e)})}{\$1,000} \times 100 = 38\% \leq 40\%$$

### 1.3 Example of the calculation of RVC when the exporter or the producer can not determine the origin of some parts.

Company A produces refrigerators in Party A using non-originating materials and plans to export them to Party B under the Agreement.

The requirements for qualification as an originating good for refrigerator (HS8418.10) are stipulated in paragraph 1 of Article 26 of the Agreement as follows:

1. For the purposes of paragraph (b) of Article 24, a good shall qualify as an originating good of a Party if:

- (a) *the good has a regional value content (hereinafter referred to as "RVC"), calculated using the formula set out in Article 27, of not less than forty (40) per cent, and the final process of production has been performed in the Party; or*
- (b) *all non-originating materials used in the production of the good have undergone in the Party a change in tariff classification (hereinafter referred to as "CTC") at the 4-digit level (i.e. a change in tariff heading) of Harmonized System.*

Company A has to prove that the refrigerator satisfies either the CTC-based rule at 4-digits level or the 40% RVC-based rule. If Company A chooses the 40% value-added rule in this case, Company A has to calculate the RVC in the way illustrated below.

Company A's manufacturing costs of the refrigerator:

Material/Parts	Sources	Originating Status	Value US\$
<b>Parts a</b>	<b>Party A</b>	<b>originating</b>	<b>280</b>
<b>Parts b</b>	<b>Party A</b>	<b>originating</b>	<b>140</b>
Parts c	Unknown	Unknown	Unknown
Parts d	Unknown	Unknown	Unknown
Parts e	Unknown	unknown	Unknown
Other Costs	N/A	N/A	80
F.O.B. Price	--	--	1,000

The calculation of the RVC of the refrigerator in this example is;

$$\text{RVC} = \frac{\$1,000 - (\$1000 - \$420(\text{Parts a and b}))}{\$1,000} \times 100 = 42\% \quad 40\%$$

Without regard to the value of Parts c, Parts d, and Parts e (and Other Costs,) the above result of the calculation shows that the refrigerator qualifies as an originating good of Party A under the Agreement.**2. Accumulation (Article 29)**

2.1 Example of the calculation of RVC

Company A produces PDP (Plasma Display Panel) TVs (HS8528.12) in Party A and plans to export them to Party B under the Agreement. Parts b and c which are used in the manufacturing process of the PDP TV are imported from Party B and Party C.

The requirements for qualification as an originating good for the PDP TV (HS8528.12), pursuant to paragraph 2 of Article 26, follow the product specific rules(PSR), which are stipulated as RVC 40%.

Company A has to prove that the PDP TV satisfies 40% RVC-based rule.

Company A has to calculate the RVC in the way illustrated below.

Company A's manufacturing costs of the PDP TV:

Material/Parts	Sources	Originating Status	Value US\$
<b>Parts a</b>	<b>Party A</b>	<b>Originating</b>	<b>600</b>
<b>Parts b</b>	<b>Party B</b> (considered as Japan)	considered as originating <b>Originating in Party B</b>	<b>100</b>
<b>Parts c</b>	<b>Party C</b> (considered as Japan)	considered as originating <b>Originating in Party C</b>	<b>400</b>

Parts d	India	Non-originating	300
Parts e	S. Korea	non-originating	200
Parts f	China	non-originating	200
Other Costs	N/A	N/A	200
F.O.B. Price	--	--	2,000

Parts b and Parts c are considered as originating materials of Party A in accordance with Article 29.

The calculation of the RVC of the PDP TV in this example is;

$$\text{RVC} = \frac{\$2,000 - \$700 \text{ (Parts d, e and f)}}{\$2,000} \times 100 = 65\% \quad 40\%$$

The above result of the calculation shows that the PDP TV qualifies as an originating good of Party A under the Agreement.

### **3. De Minimis (Article 28)**

#### 3.1 Example of the application of De Minimis for goods other than textile goods (subparagraph 1 (a))

Company A produces baby carriages (HS8715.00) in Party A and plans to export them to Party B under the Agreement.

The requirements for qualification as an originating good for baby carriages (HS8715.00) are stipulated in paragraph 1 of Article 26 under the Agreement as follows:

1. For the purposes of paragraph (b) of Article 24, a good shall qualify as an originating good of a Party if:

*(a) the good has a regional value content (hereinafter referred to as "RVC"), calculated using the formula set out in Article 27, of not less than forty*

*(40) per cent, and the final process of production has been performed in the Party; or*

*(b) all non-originating materials used in the production of the good have undergone in the Party a change in tariff classification (hereinafter referred to as “CTC”) at the 4-digit level (i.e. a change in tariff heading) of Harmonized System.*

Company A has to prove that the baby carriages satisfies either the CTC- based rule at 4-digits level or the 40% RVC-based rule. Company A chooses the CTC rule in this case.

In this case, a baby carriage (HS8715.00) is made from Indian aluminum bar (HS7604.10) and Chinese handle grip (HS8715.00). While aluminium bar undergoes a change in tariff classification at 4-digits level, since the handle grip does not undergo change in tariff classification from any other subheading, the baby carriage does not satisfy the CTC-based rule. Nevertheless, if the value of the handle grip does not exceed 10% of F.O.B. price of the baby carriage, The baby carriage is considered as an originating good of Party A, in accordance with subparagraph 1 (a) of Article 28 (De Minimis).

### 3.2 Example of the application of De Minimis for textile goods (subparagraph 1(c))

Company A produces silk yarn (HS5006.00) in Party A and plans to export them to Party B under the Agreement.

The requirements for qualification as an originating good for silk yarn (HS5006.00) is using materials obtained outside Party A, pursuant to paragraph 2 of Article 26, follow the PSR which are stipulated as “*CTH except from heading 50.05*”.

The silk yarn (HS5006.00) is made from Indian raw silk (HS5002.00) and Chinese silk thread (HS5006.00). While raw silk undergoes a change in tariff classification at the level of heading, since the silk thread does not undergo change in tariff classification, silk yarn does not satisfy the CTC-based rule. If the weight of the silk thread does not exceed 10% of that of the silk yarn, the silk yarn is considered as an originating good of Party A in accordance with subparagraph 1 (c) of Article 28.

#### **4. Unassembled or Disassembled Goods (Rule 2 (a) of General Rules for the interpretation of the HS<sup>1</sup>)**

Company A produces a gas turbine (HS8411.82), which qualifies as an originating good of Party A, and plans to export it to Party B under the Agreement. Since the gas turbine is an extremely large machine, company A exports it in a disassembled form (a group of lots) for the reason of transportation. In this case, the Customs Authority of Party B classifies the group of lots as an assembled good (“the article complete, presented disassembled”)- i.e., an assembled gas turbine by virtue of Rule 2(a) of the General Rules for the Interpretation of the Harmonized System. Its originating status is not lost and remains classified as a gas turbine (HS8411.82).

#### **5. Information Technology Products (Annex3)**

5.1 A good which is covered by Attachment A or B of the Ministerial Declaration on Trade in Information Technology Products adopted in the Ministerial Conference of the World Trade Organization on 13 December 1996 (hereinafter referred to as “the Attachment” and is used as a material in the production of another good in a Party may be considered as an originating material of the Party, regardless of the applicable product specific rule for the former good, provided that the former good is assembled in any Party, except where the former good is classified under subheadings 8541.10 through 8542.90.

---

<sup>1</sup> Rule 2(a) of General Rule for the Interpretation of the HS

2.(a) Any reference in a heading to an article shall be taken to include a reference to that article incomplete or unfinished, provided that, as presented, the incomplete or unfinished article has the essential character of the complete or finished article. It shall also be taken to include a reference to that article complete or finished (or falling to be classified as complete or finished by virtue of this Rule), presented unassembled or disassembled.

5.2 Example when using a material covered by the Attachment except for HS 8541.10 through 8542.90.

Company A produces washing machines in Party A using non-originating materials and plans to export them to Party B under the Agreement.

The requirements for qualification as an originating good for washing machines (HS8450.11) are stipulated in paragraph 1 of Article 26 of the Agreement as follows:

1. For the purposes of paragraph (b) of Article 24, a good shall qualify as an originating good of a Party if:
  - (a) *the good has a regional value content (hereinafter referred to as “RVC”), calculated using the formula set out in Article 27, of not less than forty (40) per cent, and the final process of production has been performed in the Party; or*
  - (b) *all non-originating materials used in the production of the good have undergone in the Party a change in tariff classification (hereinafter referred to as “CTC”) at the 4-digit level (i.e. a change in tariff heading) of Harmonized System.*

Company A has to prove that the washing machines satisfy either the CTC-based rule at 4 digits level or the 40% RVC-based rule. If Company A chooses the 40% RVC-based rule in this case, Company A has to calculate the RVC in a way illustrated below.

Company A's manufacturing costs of washing machine:

Material/Parts	Sources	Originating Status	Value US\$
<b>Parts a</b>	<b>Party A</b>	<b>Originating</b>	<b>100</b>
<b>Parts b (switch)</b>	<b>Party A</b>	considered as originating	<b>40</b>
Parts c	China	non-originating	50
Parts d	India	non-originating	120
Parts e	S. Korea	non-originating	100
Other Costs	N/A	N/A	90

F.O.B. Price	--	--	500
--------------	----	----	-----

Company A obtains Parts b (switch, HS8536.50), which is covered by the Attachment, from Company B in Party A. If Company A proves that Parts b (switch) were assembled in Party A, Parts b may be considered as an originating material of Party A in accordance with Annex 3.

The calculation of the RVC of the washing machine is;

$$RVC = \frac{\$500 - \$270 \text{ (Parts c, d and e)}}{\$500} \times 100 = 46\% \quad 40\%$$

The above result of the calculation shows that the washing machine qualifies as an originating good of Party A under the Agreement.