



ORGALIME

The Secretary General

Mr. Kovács
Member of the European Commission
EUROPEAN COMMISSION
200 rue de la Loi
1049 BRUSSELS

Brussels, 30 May 2005

Dear Commissioner,

We would like to thank the Commission for consulting us on the WTO negotiations on the harmonisation of the non-preferential rules of origin and request that you should negotiate for a strategy that allows engineering companies the freedom of choice between the change of tariff heading method or the value added rule; this is option B of your consultation letter.

Our answer to you takes into account the whole range of engineering industries' products, which account for around 1,200 billion Euro in the GNP and one third of the industrial exports of the EU. Orgalime is the European Engineering Industries Association representing the interests of the European mechanical, electrical, electronic and metalworking (NACE categories: 28 to 35) industries at EU level. Orgalime's members include, at the present time, 35 national trade federations representing some 130,000 companies in 24 European countries, which employ some 7 million people.

Orgalime asks the Commission to apply a strategy, which allows a flexible approach for European engineering companies, thereby providing support in the area of trade for the competitiveness of the leading European manufacturing sector. We therefore believe that, in the future also, companies should still be able to choose the method they prefer, whether it is a change of tariff heading (CTH) or the value added rule (VAR).

In general, larger companies prefer the CTH method, as it is easy for them to calculate whether a change of tariff heading occurred during a production process. However, there are a great many SMEs that prefer the VAR. For SMEs with production sites in only one country, for example, it is easier to prove that the "last substantial transformation" during the production process has occurred in that country using the VAR. In order to avoid the introduction of new bureaucratic requirements and also to suit the needs of both large and smaller companies we therefore ask the Commission to negotiate for allowing companies the choice of either applying the CTH or the VAR.

We understand that only employing the CTH rule is easier to manage from the perspective of a customs official. However, one should consider that the original purpose of the tariff code was to allow customs officials to attribute a tariff to specific products. The tariff code was not created to classify different stages in the production of goods, which is the reason why the CTH rule cannot be applied across the board when determining rules of origin. In a number of cases the value added rule is much easier to apply, as each company involved in international trade has an analytical accounting system (usually audited by external accountants) allowing the quick and correct determination of how much value has been added to goods during a production process.

Furthermore, as the flexible system of allowing companies to choose which rule they prefer to apply is already successfully implemented for preferential rules of origin, we do not see any reason why this flexibility should not be applied to non-preferential rules of origin.

We very much hope that you will be able to support our position.

A copy of the present letter has been sent to your colleagues Commissioners Mandelson and Verheugen.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized initial 'M' followed by a large, sweeping loop that ends in a small hook.

Cc: Messrs. Bill, Szűcs

Cc DG Taxud: Messrs. Verrue, Wiedow, Van Raan, Mrs. Schaerlaeckens, Mr. Stone.