Orgalime Position Paper on
WTO negotiations on non-preferential rules of origin
Brussels, 22 December 2006

INTRODUCTION

We thank the European Commission for consulting us on the WTO negotiations concerning harmonisation of non-preferential rules of origin. Our answer covers the whole range of engineering industries' products, which account for around €1,598 billion of annual output and represent more than one quarter of the output of manufactured products but also a third of the manufactured exports of the European Union. 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 the level of the EU. Orgalime's members include, at the present time, 36 national trade federations representing some 130.000 companies in 24 European countries, which employ some 10 million people.

HAVING TWO RULES DOES NOT SOLVE THE PROBLEM

For the WTO negotiations on the harmonisation of the non-preferential rules of origin, Orgalime asks the Commission to apply a strategy, which allows a flexible approach for European engineering companies.

Under no circumstances would we agree to the WTO Rules of Origin Committee Chair's proposal that it should be the *importing country* that determines which of the rules are to be applied. If, as the Commission argues in its letter, this principle is necessary in order to avoid "shopping", then we are of the opinion that maintaining the status quo is the best option and that the WTO parties should opt for an end to the negotiations. If any country were free to choose between the two rules, companies would need to be prepared to accommodate both rules at the same time, the result of which would be a substantial administrative burden.

In our view, rules of origin be they non-preferential or preferential, should ensure transparency, simplicity and a minimum administrative burden.

Regarding the specific questions raised in the Commission letter, one should keep in mind that opinions from different branches of our industry may also differ and there has to be a follow-up down to every position of the tariff system. In order to provide some guidance on our industry's views, we would like to highlight the following overall issues:

for the VAR: As more and more companies do their sourcing globally, it will become every day more difficult to reach 45% value added in one country.

for the CTH: one should not aim at change of tariff heading (CTH), but change of tariff *sub*-heading (CTSH). If the Change of Tariff Heading would apply, very few production processes will deliver origin to a product. Simple assembling however should not be sufficient for providing origin status, even if the Tariff Heading changed. Therefore, during the assembly, a certain increase of value needs to take place.

We have great concerns about the generic approach in the WTO Committee on Rules of Origin Chairs proposals, which might lead to an un-differentiated application of only one Rule of Origin by decision of the importing country and thus will not take into accounts the specifics of the industries/sectors as well as the products involved.

We of course fully support those cases where certain branches of our industry agreed that specific manufacturing or processing operations should determine the origin (e.g. diffusion for the semiconductors industry).

Lastly, we recommend that rules applied in preferential and non-preferential Rules of Origin should not differ from each other and should be harmonised as much as possible.

STATUS QUO BETTER THAN AN UNFAVOURABLE COMPROMISE

We believe that keeping company costs and administrative burdens low should be the leading principle in the respective WTO negotiations. Engineering companies currently operate in an environment where the last major change to the product determines its origin. Today, these companies do not need to calculate percentages, do not need to investigate whether a tariff heading change occurred and therefore are not faced with burdensome bureaucracy and costs.

At the end of the negotiation process the engineering industry should not be in a worse situation than it is today. One should furthermore keep in mind that, as the name "non-preferential" already tells, there is no positive incentive, such as a preference treatment, connected to these rules. Unlike the preferential rules of origin this set of rules does not offer anything in return for compliance, which is the reason why, from an industry perspective, additional burdens cannot be accepted.

We recall that these WTO negotiations have now lasted for 12 years, which shows how complex and sensitive the matter is. We therefore caution regulators against taking unnecessarily hasty decisions without having sufficiently analysed the impact that their decisions will have on the EU’s leading industry which operates in an increasingly global and competitive environment.