



Foreign, Commonwealth
& Development Office



Department for
Business & Trade

Guidance DOCUMENT

Understanding the rules of origin

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Purpose and contents

This guidance explains what rules of origin (RoOs) are and the changes under the Developing Countries Trading Scheme (DCTS).

The changes include simpler product specific rules (PSRs) and more generous cumulation options for exporters in Least Developed Countries (LDCs).

The guidance is in 3 sections

01



Overview of the rules of origin explains what these are and how to interpret where products 'originate'.

02



Understanding product specific rules explains how these work and highlights the simplified and liberalised rules under the DCTS.

03



Understanding cumulation and the extended rules under the DCTS

Overview of the rules of origin

01

Rules of origin determine where goods are 'from', for example, where goods have been produced or had substantial work done to them. They provide the criteria for determining whether goods originate from a particular country. RoO are important in identifying which preferential tariffs apply under the DCTS.

Criteria for determining where goods originate

The 2 broad criteria for determining the country of origin for goods are:

1. **Wholly obtained rule (WO):** for goods to originate from a country, they must be produced entirely within the country, without incorporating materials from any other country.
2. **Sufficient working or processing rule:** goods may also originate from a country if they are processed in line with relevant product specific rules

There are 3 broad categories of product specific rules:

1. **Value-added rule** – final goods must have limited value of non-originating materials to qualify as originating from a DCTS country.

This value is typically a defined percentage of the 'ex-works' price of the finished good. The ex-works price of finished goods is the production cost of the finished goods minus internal taxes, insurance and freight costs.

2. **Change of tariff classification** – final goods cannot have the same classification as any of the non-originating materials used to make them.

Customs tariffs are based on the Harmonised System (HS). There are 3 HS levels used in the DCTS:

- HS2 (HS chapter level represented by 2-digit codes)
- HS4 (tariff heading level represented by 4-digit codes)
- HS6 (tariff sub-heading level represented by 6-digit codes).

Overview of rules of origin

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There are 3 types of changes in tariff classification changes that could qualify goods as originating:

- a. **Change of Chapter (CC)** – this means the final good cannot be classified under the same HS chapter as the non-originating materials for it to qualify as originating

Illustration 1: Change of HS chapter case study for rubberised fabric

Change of Chapter PSR: For some products to originate from a DCTS country, the HS Chapter of the final good must differ from that of the raw materials used



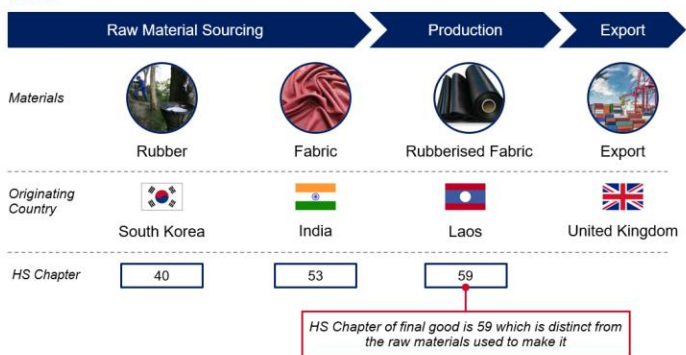
The Change of Chapter Product Specific Rule (PSR) is one of the 3 types of changes in tariff classifications that DCTS countries may need to comply with

- Change of Chapter (CC): means final goods cannot have the same HS Chapter (at the HS2 Level) as the NOM¹
- Change of Tariff Heading (CTH): means final goods cannot have the same tariff heading (at the HS4 Level) as the NOM
- Change of Tariff Sub-Heading (CTSH): means final goods cannot have the tariff sub-heading (at the HS6 Level) as the NOM

1. Non-originating materials or NOM are materials sourced outside the country of final production
Source: DCTS, EU GSP, US GSP, BCG Analysis



Case study: Change of HS Chapter for rubberised fabric made from rubber and fabric



- b. **Change of Tariff Heading (CTH)** – this means that, to qualify as originating, the final goods cannot have the same tariff heading as any of the non-originating materials.

- c. **Change of Tariff Sub-heading (CTSH)** - this means that, to qualify as originating, the final goods cannot have the same tariff sub-heading as any of the non-originating materials

Overview of rules of origin

01

3. Specific operations (Processing rule) – the production of the goods from non-originating elements must follow a set processing procedure. This type of rule specifies processes which need to have taken place to get originating status

Illustration 2: Manufacturing processing rules for some products under the DCTS

Processing Rules PSR: There are some specific processing rules that DCTS countries need to comply with to claim originating status on final goods

Specific Processing Rules require that a stipulated production process is followed in producing final goods

Case study: Manufacturing processing rules for some products under the DCTS

			
<i>Materials</i>	Silk	Flax Yarn	Glass or Glassware
<i>Processing Rule</i>	<ul style="list-style-type: none"> Spinning of natural fibres or extrusion of man-made fibres accompanied by spinning or twisting 	<ul style="list-style-type: none"> Spinning of natural fibres or extrusion of man-made fibres accompanied by spinning 	<ul style="list-style-type: none"> Cutting of glassware or hand decoration (except silk-screen printing)

1. Non-originating materials or NOM are materials sourced outside the country of final production
Source: DCTS, EU GSP, US GSP, BCG Analysis

You should read the guidance on how to claim preferences on [trading with developing nations page](#) to understand what documents you need to prove rules of origin.

Understanding product specific rules

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Product specific rules (PSRs) are the processing rules that products or goods must meet to be considered as originating from a DCTS country. The PSRs that apply differ by HS chapter or product.

The DCTS introduced less restrictive PSRs for Least Developed Countries (LDCs), countries with Comprehensive Preferences.

These simplified PSRs make it easier for businesses to understand and use the rules of origin. You can use the [Opportunity Visualisation Tool](#) to view the PSRs for LDCs.

The 4 changes to PSRs for LDCs under the DCTS are:

- 54 chapters allow 75% non-originating content at the chapter level (HS2).

Illustration 3: An Ethiopian leather shoe manufacturer sourcing 75% non-originating materials from China, Germany, and Austria

Non-Originating Materials PSR: 54 Chapters in the DCTS grant LDCs a 75% limit on the value of NOMs¹ used in producing final goods

Product Specific Rules Governing Comprehensive Preference Countries

- The DCTS provides 3 broad categories of Product Specific Rules, including the Value-Added Rule which sets the value of non-originating materials that can be used in the production of some final goods at 75%
- The value is usually referred to as the ex-works price of the finished goods. The ex-works price is the cost of production minus taxes, freight and insurance costs

Case study: Ethiopian leather shoes manufacturer sourcing 75% of non-originating materials from China, Germany and Austria



Implication of 75% Non-Originating Materials Rule

- This allows LDCs to spend up to 75% of the production costs in sourcing materials from other countries, and still claim originating status and preferential tariffs on final goods
- To successfully leverage this rule and claim 0% import tariffs on finished goods, LDCs must comply with the required minimal processing rules
- When LDCs reach the 75% NOM limit, the outstanding 25% can be sourced from:
 - The LDC itself or;
 - A regional group or;
 - Other UK EPA countries using extended cumulation

Note: Compared to the DCTS, the EU and US GSP have lower thresholds for non-originating materials (NOM)

- EU GSP allows 47.5% NOM
- US GSP allows 35% NOM

1. Non-originating materials or NOM are materials sourced outside the country of final production
Source: DCTS, EU GSP, US GSP, BCG Analysis

Understanding product specific rules

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2. 69% of PSRs (117 out of 169) allow for alternative 'or' rules. This allows businesses to meet at least one PSR if the other is difficult to satisfy.

For example, leather shoes under Chapter 42 have alternative PSRs. LDCs could either meet a Change of Tariff Heading or satisfy the 75% non-originating material maximum rule.

3. 76 chapters have a single set of rules that apply to the whole chapter. This means there are fewer exceptions, rules and variations at the tariff heading or sub-heading level.

This means, it is easier for businesses to meet the Rules of Origin and qualify for preferential tariffs

For example, all products classified under Chapter 10 (Cereals) are subject to the Change of Chapter (CC) PSR.

4. 20 chapters have some rules at the more detailed tariff heading level, that is, at HS4 rather than the HS2 chapter level. This occurs when the chapter rule is either unsuitable for all goods, or too restrictive for certain goods in the chapter.

For example, Chapter 6 has 2 detailed PSRs at the tariff heading level. The PSR for Chapter 6 generally is CC, while that of tariff heading 0603 is Change of Tariff Sub-heading (CTSH).

Understanding product specific rules

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Product specific rules for Enhanced and Standard Preference countries

A specific set of rules of origin and product specific rules apply to countries eligible for Enhanced and Standard Preferences.

For example, the value of non-originating materials ranges from 20% to 70%, depending on the product being exported to the UK.

Illustration 4: Pakistani rug manufacturer using the 40% non-originating material rule

Non-Originating Materials PSR: Non-LDCs have to comply with limits on the value of NOMs¹ used in producing final goods in order to claim originating status

Product Specific Rules Governing Enhanced and Standard Preference Countries

- Countries entitled to Enhanced and Standard Preferences are bound by a distinct set of Rules of Origin and Product Specific Rules (PSRs) which set specific limits on the value of non-originating materials (ex-works), that can be used in the production of final goods for them to qualify as originating.
- The value of non-originating materials range from 20% to 70% depending on the product being exported to the UK by the Enhanced or Standard Preference country.

Case study: Pakistan rug manufacturer sourcing 40% of non-originating materials from Australia



Implication of Non-Originating Materials Rule

- This allows Enhanced and Standard Preference countries to spend between 20% to 70% of the production cost² (depending on the product) in sourcing materials from other countries
- If these NOM thresholds are met, a non-LDC will be able to claim originating status on final goods being exported to the UK and could access preferential tariffs under the DCTS based on their preference tier

Note: The EU and US GSP still have notably lower NOM thresholds (47.5% and 35% respectively) vs Enhanced and Standard Preference countries which enjoy up to 70% on some products

1. Non-originating materials or NOM are materials sourced outside the country of final production. 2. Excluding internal taxes, freight and insurance costs
Source: DCTS, EU GSP, US GSP, BCG Analysis

Understanding cumulation

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Cumulation is when materials originating from specific countries can be incorporated in the products from a DCTS country and then considered as originating in that DCTS country. This can occur as long as the processing done in the DCTS country goes beyond minimal levels.

Types of cumulation under the DCTS

Bilateral cumulation: Businesses in DCTS countries under all preference tiers can cumulate with the UK, British Overseas Territories, the EU, Norway and Switzerland.

Cumulation relating to products classified under Chapters 1-24 of the Harmonised System is excluded from this rule for Norway and Switzerland.

Illustration 5: A case study of an integrated circuits manufacturer in the Philippines using bilateral cumulation to source raw materials from Germany and France

Bilateral Cumulation: DCTS countries under all preference tiers can cumulate with the UK and British Overseas Territories, EU, Norway and Switzerland.



All countries under the DCTS are allowed to use bilateral cumulation and source raw materials from the United Kingdom, British Overseas Territories, European Union, Norway and Switzerland (excluding Chapters 1-24 for Norway and Switzerland).

Cumulated materials count as originating if the processing in the DCTS country meets minimal processing rules. In this example, the materials from France and Germany are considered as Filipino as the inputs are processed beyond minimal levels in the Philippines.



Case study: An integrated circuits manufacturer in the Philippines using bilateral cumulation to source raw materials which count as originating from Germany and France



Understanding cumulation

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Intra-regional cumulation: Businesses in DCTS countries within designated regional groups can cumulate with other group members. The two groups to which intra-regional cumulation applies are:

- Group 1: Cambodia, Indonesia, Laos, Myanmar, Philippines, (Vietnam)
- Group 2: Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka

When intra-regional cumulation occurs, the tariff rate of the cumulating country, that is the country where the final processing takes place, will apply. For example, if the cumulating country is an Enhanced Preference country, Enhanced Preference tariffs will apply.

Illustration 6: A Sri Lankan brassiere manufacturer using intra-regional cumulation to source raw materials from countries in group 2

Regional Cumulation: Countries in regional groups under the DCTS can source materials within the region & claim originating status on those goods

The DCTS designates selected countries across 2 regional groups...



Case study: Sri Lankan brassiere manufacturer using intra-regional cumulation within Group 2 to source materials



... allowing intra & inter-regional cumulation

- **Intra-regional:** Countries in the same group are automatically allowed to source raw materials from each other
- **Inter-regional:** Following an application, group 1 members can cumulate with group 2 members, and vice versa

Regional cumulation specifications under the DCTS

- Ability to claim originating status on raw materials from other group members **strengthens regional value chains**
- However, **minimal processing rules must be met in the country where final processing takes place** for goods to qualify as originating
- **Enhanced Preference countries** exporting to the UK will be bound EP tariffs and rules of origin

1. Vietnam has signed a Free Trade Agreement (FTA) with the UK. However, regional group members will be able to use regional cumulation with Vietnam when sourcing inputs from Vietnam as the cumulating partner as long as the input is duty-free, quota-free in the UK-Vietnam FTA.
Source: UN Comtrade, BCG Analysis, DCTS, US GSP

Understanding cumulation

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Inter-regional cumulation: this type of cumulation allows businesses in the 2 regional groups under the DCTS to cumulate between themselves. Businesses seeking to use this cumulation must make a case-by-case application. Like intra-regional cumulation, the tariff rate of the cumulating country, that is, the country where the final processing takes place, will apply.

Extended cumulation for Least Developed Countries (LDCs): Businesses in LDCs eligible for Comprehensive Preferences can cumulate with businesses in other DCTS countries and UK Economic Partnership Agreement (EPA) countries. This type of cumulation is only possible if goods are duty-free and quota-free when exported directly from the cumulating partner to the UK, and goods are processed beyond minimal requirements.

You can read the list of cumulating countries in [Annex 2 of the Developing Countries Trading Scheme Policy Response](#).

Understanding cumulation

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Regional cumulation with a UK-FTA Partner: this allows LDCs to cumulate with Enhanced Preference (EP) countries in their regional group who have signed a Free Trade Agreement (FTA) with the UK.

This cumulation only applies if the final goods produced by the LDC or EP country would be eligible for 0% tariffs if they were exported directly from the FTA partner to the UK under the terms of the FTA.

This cumulation currently applies to those countries in the same regional group as Vietnam.

Illustration 8: A Cambodian bicycle manufacturer using regional cumulation to source bicycle parts from Vietnam.

Regional Cumulation with a UK-FTA Partner: Countries in regional groups can cumulate with UK-FTA countries that no longer enjoy DCTS preferences

Case study: Cambodian¹ bicycle manufacturer using regional cumulation to source bicycle parts from Vietnam², an EP country that transitioned out of the DCTS effective Jan 2023 after signing an FTA

UK DCTS

- Cambodia (and other Group 1 members) can source bicycle parts from Vietnam & claim originating status when exporting the final product (bicycles) to the UK, if the bicycle parts are duty free & quota free in the UK-Vietnam FTA
- Cambodia must also meet minimal processing rules to claim originating status and preferential tariffs
- Vietnam cannot claim originating status & preferential tariffs under the DCTS for goods sourced from any Group 1 member.
- Vietnam's direct trade with the UK will be governed by the terms of the UK-Vietnam FTA
- However, under the EU GSP, Group 1 members cannot claim originating status on bicycle parts sourced from Vietnam and will not be entitled to preferential tariffs when the final product (bicycles) is exported to the EU



Map of South East Asia highlighting Regional Group 1 Members Cumulating with Vietnam



1. Cambodia is an LDC under the DCTS 2. Vietnam was an Enhanced Preference Country before it transitioned out of the DCTS
Source: BCG Analysis, DCTS, EU GSP

Understanding cumulation

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Illustration 7: A case study of an Ethiopian soap manufacturer using extended cumulation to source raw materials from Nigeria and South Africa

Extended Cumulation: LDCs¹ can automatically cumulate with other DCTS countries and UK-EPA² countries for goods that are duty-free and quota free³



Case study: Ethiopian soap manufacturer using extended cumulation to source raw materials from Nigeria and South Africa

	Raw Material Sourcing	Production	Export
Materials	Coconut Oil	Alkaline Salt	Soap
Country	Nigeria	South Africa	Ethiopia
Country Classification	DCTS	UK-EPA Country	LDC
Import Tariff	0%	0%	0%

Implications of sourcing materials with tariffs

- If the materials sourced from a DCTS country or an UK-EPA country are subject to tariffs when exported directly to the UK, an LDC will not be able to automatically leverage extended cumulation and cannot claim originating status on those goods
- This is because the 0% import tariff rule has not been satisfied

1. LDCs = Least Developed Countries 2. EPA = Economic Partnership Agreement with UK 3. The goods being sourced from the DCTS country or UK-EPA must be duty-free and quota-free if they were being exported directly to the UK 4. LDCs cannot leverage extended cumulation with Norway and Switzerland
Source: BCG Analysis, Gov.uk website, DCTS

Case-by-Case Extended cumulation: the DCTS also allows businesses from non-LDCs to make case-by-case applications for extended cumulation when exporting to the UK. This type of cumulation does not apply to products classified under HS Chapters 1 to 24.