



Department for
Business & Trade

Call for Evidence:

Pan-Euro Mediterranean Convention on Preferential Rules of Origin (PEM)

Supplementary Explainer on Rules of Origin and PEM

Background - Rules of Origin

Rules of Origin are criteria used to determine where a product was made – i.e., where it “originates”. By defining where a product was produced or manufactured (as opposed to shipped from), rules of origin determine whether that product qualifies for preferential tariffs (lower duties) under trade agreements.

There are different types of rules which make up rules of origin.

01

Wholly Obtained

e.g. Salmon caught in Scotland or minerals extracted from the seabed.



The good is exclusively produced in the country without incorporating materials from any other country

02

Change in Tariff Classification

e.g. Transforming aluminum alloy into an engine block.



7601
Aluminum
alloy



8408
Engine
Block

The inputs changed tariff code, so the product (engine), is originating.

03

Value limitation for non-originating materials

e.g., Adding the components of a clock together.

Part	Cost	Origin
Face	£1.50	UK
Case	£2	Japanese
Hands	£1	Spanish
Cogs	£1	Chinese
Labour	£4.50	UK

Ex-works price = £10

40% non-originating materials
(£4/£10)

04

Specific Working or Processing

e.g., A chemical reaction must have taken place.



2802
Sulphur



2807
Sulphuric
acid

The chemical reaction took place in the UK, so the product is originating

Background – Pan Euro Mediterranean Convention on Rules of Origin

PEM is a multilateral agreement among 25 PEM contracting parties in the European region, Middle East and North Africa. It aims to increase trade amongst its membership by establishing common RoO and cumulation arrangements among contracting parties.

The 25 Contracting Parties to the PEM Convention are:

- the EU
- the European Free Trade Association States (Switzerland, Norway, Iceland, Liechtenstein)
- the Faroe Islands
- the participants in the Barcelona Process (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria, Tunisia and Turkey)
- the participants in the EU's Stabilisation and Association Process (Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia and Kosovo)
- Moldova
- Georgia
- Ukraine

Rulesets

Every member of PEM implements the **same** set of rules in the agreements they share with each other.

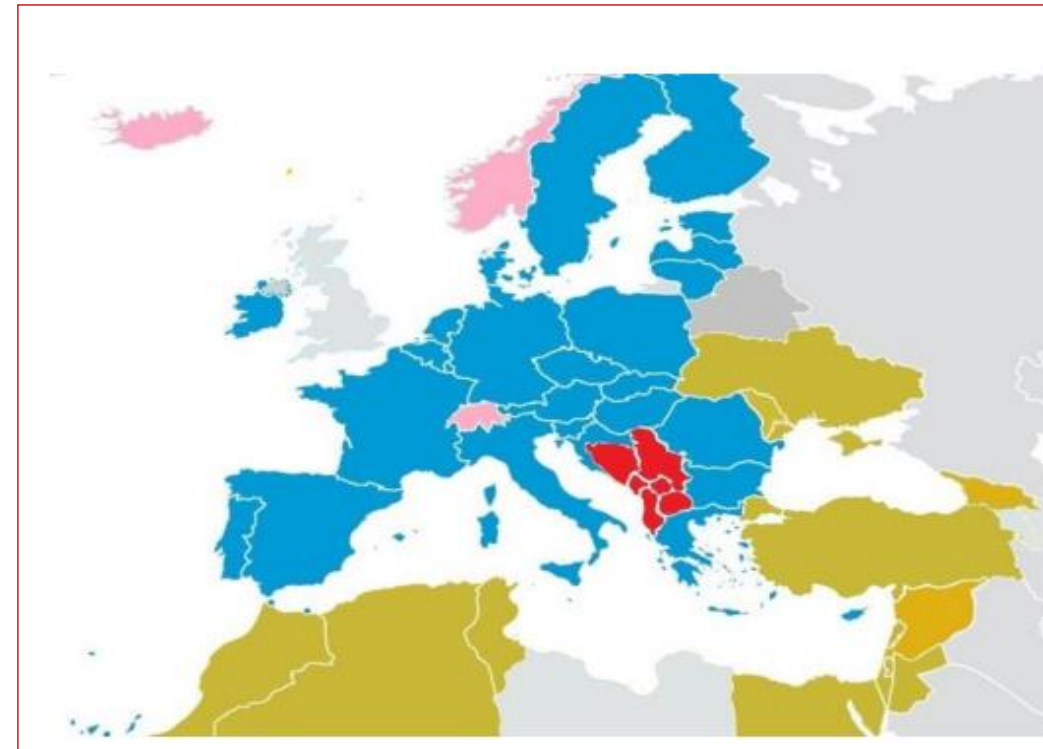
The current PEM ruleset was agreed in 2013. However, PEM members recently agreed to modernise the 'original' rules. The 'revised' rules are due to be fully implemented between PEM members by 1 January 2026

Free Trade Agreement?

PEM is not an FTA or a customs union, but instead a common ruleset applied where members have FTAs with each other.

Not every PEM member has an FTA with every other member.

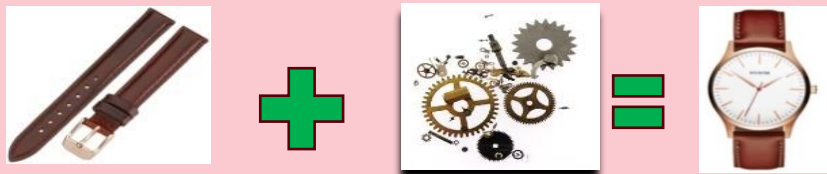
Map of the 25 PEM Members:



Diagonal Cumulation

A key benefit of the PEM Convention is diagonal cumulation between the parties. Diagonal cumulation arrangements in the PEM zone mean materials from a PEM member can be incorporated in products manufactured by another member and used to meet the rules of origin when exporting to another PEM signatory (so long as they all have FTAs with each other).

Example 1: Diagonal Cumulation under PEM



Under PEM, a Swiss watch manufacturer is able to count the leather watch strap from Turkey as ‘originating’ content.

This helps the Swiss watch to meet the rules of origin in the Swiss-EU FTA and therefore to access the lower tariff when exported to the EU.

Example 2 : Bilateral cumulation only in UK-EU trade



Under the UK-EU TCA, UK manufacturers **cannot** count content from non-EU PEM countries to meet rules of origin and access preferential tariffs when exporting to the EU.



Only content from either the UK or EU can be counted as ‘originating’ in order to meet the rules. This is called bilateral cumulation.

Origin Procedures

Origin procedures relate to the administrative requirements traders must follow to prove originating status and claim preference.

UK- EU TCA:

The originating status of a product is proved by either :

- Statement on Origin/Origin Declaration - self-certification of origin where the exporter adds prescribed text describing the originating product to an invoice or other document; or
- Importer's Knowledge - the ability for importers to claim preference using knowledge they have at the time of import regarding the goods they are importing.

PEM:

The originating status of a product is proved by either:

- Movement Certificate EUR.1 or EUR-MED- certificate issued by the customs authority/authorised body in the exporting country stating where the goods were grown, manufactured or produced.
- Invoice Declaration- completed by an exporter that the product meets the origin criteria. For shipments exceeding 6,000 euro, the invoice declaration may only be completed by an approved exporter.

*N.B. EUR-MED is no longer applicable under the revised PEM rules.