

( FAQS )

# International Trade and Rules of Origin FAQs

## What is international trade, and why is it important?

International trade involves the exchange of goods, services, and capital across international borders. It's vital for economic development, fostering peaceful relations between nations, and increasing global prosperity. Trade contributes significantly to a country's Gross Domestic Product (GDP) and facilitates access to a broader range of products and services. Organisations like the World Trade Organisation (WTO) help to regulate and facilitate this trade through various agreements.

## **What are tariffs, and how do they relate to free trade?**

Tariffs, also known as customs duties, are taxes imposed on imported goods. Lowering or removing tariffs is a key objective of free trade agreements. Historically, trade negotiations have aimed to reduce these barriers, along with non-tariff barriers like quotas and import bans. The WTO facilitates these negotiations, helping countries move toward lower tariff rates, although recent political developments have seen some countries using tariffs again to protect domestic industries.

## **What is "Most Favoured Nation" (MFN) status, and how does it work within the WTO?**

1. Most Favoured Nation (MFN) status is a core principle of WTO law, requiring that if a WTO member grants a special trade advantage to one member, it must grant the same to all other WTO members. This means that the same, generally lower, level of customs duty must be applied to all members (although it can vary between different classes of goods). This is in contrast to Preferential Trade Agreements, which grant lower tariffs only to partner countries. MFN aims to prevent discrimination between trading partners.

## **What are Rules of Origin (RoO), and why are they important in international trade?**

Rules of Origin are the criteria used to determine the "nationality" of a good – where it was obtained or manufactured. They are crucial because import duties, trade statistics, "Made In" labels, and trade restrictions often depend on a product's origin. RoO determine whether a good qualifies for preferential trade treatment under Free Trade Agreements, or whether anti-dumping or other import restrictions apply. They also help customs officials to levy the correct duties.

## **What are the main types of rules used to determine the origin of goods?**

There are two primary categories for determining origin: "wholly obtained goods" and "substantially transformed goods". Wholly obtained goods are entirely produced in one country without any foreign inputs (such as natural resources). Substantially transformed goods involve processing in multiple countries. For these, origin is generally defined as the last country where the goods underwent significant economic transformation, using criteria such as "percentage" or "value" added, "tariff classification", and "specific processes".

## **What is meant by 'substantial transformation' when determining the origin of a product?**

Substantial transformation means that a product has undergone a significant processing or manufacturing step in a particular country, that is more than just a minimal operation. This means it should result in a new product, represent a major stage of manufacturing, add value, and cause a change in tariff heading. It's not enough for basic processes to have taken place, such as washing, packaging, or simple assembly. The transformation must be 'economically justified', which generally means it must add value.

## **What is 'cumulation', and how does it impact rules of origin?**

Cumulation is a rule that allows materials and processes from certain countries to be treated as if they originated in the country of final production for the purposes of rules of origin. Different forms of cumulation exist, including bilateral, diagonal, regional, and full cumulation. This can significantly increase flexibility in international supply chains and improve access to preferential trade. For instance, the EU-UK Trade Agreement allows for "full bilateral cumulation", which means materials and processing from the EU can count as UK inputs and vice versa.

## **Why has understanding rules of origin become more crucial post-Brexit for UK businesses?**

After Brexit, the UK is no longer part of the EU Customs Union, meaning that its rules of origin have changed. 'Made in the UK' is no longer enough for trade. Rules of origin now apply to both exports to the EU and to third countries. Therefore, businesses need to understand the specific rules of each FTA and trade agreement to claim preferential tariffs or ensure correct duty is paid. Furthermore, origin is critical for UK businesses to take advantage of cumulation to use foreign components and materials while still qualifying as originating goods.