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**REPORT BY AMBASSADOR STEFFEN SMIDT
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ON PREFERENTIAL RULES OF ORIGIN FOR LDCS**

Further to my report to the TNC contained in document JOB/TNC/59, I have undertaken further consultations with interested Members for a draft Ministerial Decision on Preferential Rules of Origin for LDCs. I am pleased to forward the outcome of my consultations to the Ministerial Conference through this submission.

The submission represents intense work and tireless efforts of delegations over the past few months with a view to reaching an agreement for adoption by the Ministerial Conference. I hope the draft Decision will be acceptable to all Members.

I would like to thank all delegations that participated in these consultations for their sincere cooperation which has enabled us to submit this draft Decision to the Ministerial Conference.

It is understood that this draft Decision would constitute an addendum to the Bali Ministerial Decision on Preferential Rules of Origin for LDCs, and as such will be issued as WT/L/917/Add.1.

PREFERENTIAL RULES OF ORIGIN FOR LEAST DEVELOPED COUNTRIES

DRAFT MINISTERIAL DECISION

The Ministerial Conference,

Having regard to paragraph 1 of Article IX of the Marrakesh Agreement Establishing the World Trade Organization;

Recalling the "Decision on Measures in Favour of Least-Developed Countries" (Annex F of the Hong Kong Ministerial Declaration) which states that: "Developed country Members shall, and developing country Members declaring themselves in a position to do so should: ensure that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access";

Reaffirming and building upon the guidelines enumerated in the "Ministerial Decision on Preferential Rules of Origin for Least-Developed Countries" adopted at the Bali Ministerial Conference;

Decides, with respect to preferential rules of origin applicable to imports from LDCs under non-reciprocal preferential trade arrangements, as follows:

1 REQUIREMENTS FOR THE ASSESSMENT OF SUFFICIENT OR SUBSTANTIAL TRANSFORMATION

1.1. When applying an *ad valorem* percentage criterion to determine substantial transformation, Preference-granting Members shall:

- (a) Adopt a method of calculation based on the value of non-originating materials. However, Preference-granting Members applying another method may continue to use it. It is recognized that the LDCs seek consideration of use of value of non-originating materials by such Preference-granting Members when reviewing their preference programmes;
- (b) Consider, as the Preference-granting Members develop or build on their individual rules of origin arrangements applicable to imports from LDCs, allowing the use of non-originating materials up to 75% of the final value of the product, or an equivalent threshold in case another calculation method is used, to the extent it is appropriate and the benefits of preferential treatment are limited to LDCs¹;
- (c) Consider the deduction of any costs associated with the transportation and insurance of inputs from other countries to LDCs.

1.2. When applying a change of tariff classification criterion to determine substantial transformation, Preference-granting Members shall:

- (a) As a general principle, allow for a simple change of tariff heading or change of tariff sub-heading;
- (b) Eliminate all exclusions or restrictions to change of tariff classification rules, except where the Preference-granting Member deems that such exclusions or restrictions are needed, including to ensure that a substantial transformation occurs;
- (c) Introduce, where appropriate, a tolerance allowance so that inputs from the same heading or sub-heading may be used.

¹ This provision shall not apply to Preference-granting Members who do not use the *ad valorem* percentage criterion as their main method for the determination of substantial transformation.

1.3. When applying a manufacturing or processing operation criterion to determine substantial transformation, Preference-granting Members shall, to the extent provided for in their respective non-reciprocal preferential trade arrangements, allow as follows:

- (a) if applied to clothing of chapters 61 and 62 of the Harmonised System nomenclature, the rule shall allow assembling of fabrics into finished products;
- (b) if applied to chemical products, the rule shall allow chemical reactions that form a new chemical identity;
- (c) if applied to processed agricultural products, the rule shall allow transforming of raw agricultural products into processed agricultural products;
- (d) if applied to machinery and electronics, the rule shall allow assembling of parts into finished products, provided that the assembly of parts goes beyond simple assembly.

1.4. Preference-granting Members shall, to the extent possible, avoid requirements which impose a combination of two or more criteria for the same product. If a Preference-granting Member still requires maintaining a combination of two or more criteria for the same product, that Preference-granting Member remains open to consider relaxing such requirements for that specific product upon due request by an LDC.

1.5. Preference-granting Members are encouraged to offer alternative rules for the same product. In such cases, the above-mentioned provisions will be applicable to only one of the alternative rules.

2 CUMULATION

2.1. Recognizing that the development of cumulation possibilities should be considered in relation to the rules applied to determine sufficient or substantial transformation, Preference-granting Members are encouraged to expand cumulation to facilitate compliance with origin requirements by LDC producers using the following possibilities:

- (a) cumulation with the respective Preference-granting Member;
- (b) cumulation with other LDCs;
- (c) cumulation with GSP beneficiaries of the respective Preference-granting Member; and
- (d) cumulation with developing countries forming part of a regional group to which the LDC is a party, as defined by the Preference-granting Member.

2.2. Preference-granting Members remain open to consider requests from LDCs for particular cumulation possibilities in the case of specific products or sectors.

3 DOCUMENTARY REQUIREMENTS

3.1. With a view to reducing the administrative burden related to documentary and procedural requirements related to origin, Preference-granting Members shall:

- (a) As a general principle, refrain from requiring a certificate of non-manipulation for products originating in a LDC but shipped across other countries unless there are concerns regarding transshipment, manipulation, or fraudulent documentation;
- (b) Consider other measures to further streamline customs procedures, such as minimizing documentation requirements for small consignments or allowing for self-certification.

4 IMPLEMENTATION, FLEXIBILITIES AND TRANSPARENCY

4.1. Developing country Members declaring themselves in a position to do so should, with appropriate flexibility, undertake the commitments set out in the above provisions.

4.2. No later than 31 December 2016 each developed Preference-granting Member, and each developing Preference-granting Member undertaking the commitments in accordance with paragraph 4.1 up to that date or thereafter, shall inform the Committee on Rules of Origin (CRO) of the measures being taken to implement the above provisions.

4.3. Preferential rules of origin shall be notified as per the established procedures.² In this regard, Members reaffirm their commitment to annually provide import data to the Secretariat as referred to Annex 1 of the PTA Transparency Mechanism, on the basis of which the Secretariat can calculate utilization rates, in accordance with modalities to be agreed upon by the CRO. Furthermore, the CRO shall develop a template for the notification of preferential rules of origin, to enhance transparency and promote a better understanding of the rules of origin applicable to imports from LDCs.

4.4. The CRO shall annually review the implementation of this Decision in accordance with the Transparency provisions contained in the Ministerial Decision on Preferential Rules of Origin for Least Developed Countries adopted at the Bali Ministerial Conference.

² These notifications are made pursuant to the Transparency Mechanism for Preferential Trade Agreements (PTAs). It is also noted that the Agreement on Rules of Origin stipulates that Members provide to their preferential rules of origin to the Secretariat.