

Annexure II

An elaboration on Rules of Origin (RoO) and Product Specific Rules (PSRs)

Rules of Origin are the conditions which need to be complied with, by an exporter of goods, in order to receive any tariff concession under a Free / Preferential Trade Agreement (FTA). Accordingly, the RoO are two-fold, i.e., those wholly obtained (WO) and the products not wholly produced (in other words, processed or value-added products) in the exporting country. The wholly obtained items include, vegetable products harvested and animals (and products thereof) born and raised, minerals extracted etc., in an origin country. (Please see **Annexure III**, the RoO of the India – Sri Lanka Free Trade Agreement, which is currently in operation)

On the other hand, products not wholly produced are the value-added products which have undergone a sufficient amount of processing in the exporting country.

A FTA specifies a percentage of the minimum value addition which should take place in the exporting country, in order to qualify for the tariff concession, which should accompany a substantial transformation process, which is determined by a change of tariff headings (CTH) or subheading (CTSH) between the input and the output, which differs according to each FTA. These are known as Product Specific Rules or PSRs. For instance, if a change of **tariff heading** has been specified by the agreement, it means that the difference between the HS codes of the inputs and the HS code of the output should be at HS 4 digit level. In other words, a product is considered to be “sufficiently” worked or processed when its 4 digit HS nomenclature is different from that of all of the non-originating inputs that it is manufactured from. On the other hand, where a change of tariff **sub-heading** has been specified, the difference between the inputs and the output need only be at HS 6-digit level. This has been further elaborated by the following examples;

Product Specific Rules (PSRs)	Change of Tariff Heading (CTH)		Change of Tariff Sub Heading (CTSH)	
	HS codes of input/s	HS code of the output	HS codes of input/s	HS code of the output
The value added / the amount of processing	Ingots of other alloy steel 7224.00	Wire of other alloy steel – 7229.00	Cocoa paste, not defatted 1803.10	Cocoa paste, wholly or partly defatted 1803.20
Result	Since the difference between the HS codes of the inputs and that of the output is at HS 4 digit level, there is a change of tariff heading (CTH).		Since the difference between the HS codes of the inputs and that of the output is at HS 6 digit level, there is a change of tariff sub heading (CTSH).	

The reason why there should be a consensus on the PSRs by all members of a FTA, is because even if a country may not be able to export a certain product, (at least in the short term) it may be affected by any imports from the partner country if the PSRs were biased or did not reflect the nature of an industry. Hence, a participatory approach should be taken when formulating the PSRs.