

Examples of Rules of Origin

1. Qualifying Value Content (Q.V.C.)

1.1 Example of the calculation of Q.V.C. (Application of the formula provided for in paragraph 4 of Article 24)

Company A produces refrigerators in Japan and plans to export them to Brunei Darussalam under the Agreement.

The Product Specific Rules (PSRs) for refrigerator (HS8418.10) under the Agreement are:

A change to subheading 8401.10 through 8473.29 from any other subheading; or No required change to subheading 8401.10 through 8473.29, provided there is a qualifying value content of not less than 40 percent.

To prove that the refrigerator qualifies as an originating good of Japan, Company A has to prove that the refrigerator satisfies either the change in tariff classification (6-digits tariff line change) rule (hereinafter referred to as “the CTC rule”) or the 40% value-added rule. If Company A decides to choose the 40% value-added rule in this case, Company A has to calculate the qualifying value content.

Company A's manufacturing costs of refrigerator

Material/Parts	Sources	Originating Status	Value US\$
Parts a	Japan	originating	200
Parts b	Japan	originating	100
Parts c	China	non-originating	100
Parts d	China	non-originating	100
Parts e	India	non-originating	200
Other Costs	N/A	N/A	300
F.O.B. Price	—	—	1,000

The formula for calculating the qualifying value content is:

$$Q.V.C = \frac{F.O.B. - V.N.M.}{F.O.B.} \times 100$$

- Q.V.C. is the qualifying value content of a good, expressed as a percentage;
- F.O.B. is, except as provided for in paragraph 5 of Article 24, the free-on-board value of a good payable by the buyer of the good to the seller of the good, regardless of the mode of shipment, not including any internal excise taxes reduced, exempted, or repaid when the good is exported; and

- V.N.M. is the value of non-originating materials used in the production of a good determined pursuant to paragraph 6 of Article 24.

The calculation of Q.V.C. of the refrigerator is:

$$\text{Q.V.C.} = \frac{\$1,000 - \$400 \text{ (Parts c, d and e)}}{\$1,000} \times 100 = 60\% \geq 40\%$$

The above calculation shows that the refrigerator qualifies as an originating good of Japan.

1.2 Example of the use of the method provided for in paragraph 7 of Article 24

Company A produces refrigerators in Japan and plans to export them to Brunei Darussalam under the Agreement.

The PSRs for refrigerator (HS8418.10) under the Agreement are:

A change to subheading 8401.10 through 8473.29 from any other subheading; or No required change to subheading 8401.10 through 8473.29, provided there is a qualifying value content of not less than 40 percent.

To prove that the refrigerator qualifies as an originating good of Japan, Company A has to prove that the refrigerator satisfies either the CTC rule or the 40% value-added rule. Company A decided to choose the 40% value-added rule.

Company A obtained Parts b (electric motor) from Company B in Japan. To calculate the Q.V.C. of the refrigerator, Company A has to confirm the originating status of Parts b. Company A obtained information on Parts b from Company B.

Manufacturing costs of Parts b (electric motor)

Material/Parts	Sources	Originating Status	Value US\$
Parts b1	Japan	originating	80
Parts b2	China	non-originating	40
Other Costs	N/A	N/A	20
F.O.B. Price	—	—	140

The PSRs for electric motor (HS8501.10) under the Agreement are:

A change to subheading 8501.10 through 8523.30 from any other subheading; or No required change to subheading 8501.10 through 8523.30, provided there is a qualifying value content of not less than 40 percent.

Company A decided to choose the 40% value-added rule and calculated Q.V.C. of Parts b as follows:

$$\text{Q.V.C.} = \frac{\$140 - \$40 \text{ (Parts b2)}}{\$140} \times 100 = 71\% \geq 40\%$$

Parts b qualifies as an originating material of Japan under the Agreement.

Company A's manufacturing costs of refrigerator

Material/Parts	Sources	Originating Status	Value US\$
Parts a	Japan	originating	180
Parts b	Japan	originating	140
Parts b1	Japan	originating	80
Parts b2	China	non-originating	40
Other Costs	N/A	N/A	20
Parts c	China	non-originating	280
Parts d	China	non-originating	200
Parts e	India	non-originating	100
Other Costs	N/A	N/A	100
F.O.B. Price	--	--	1,000

The calculation of the Q.V.C. of the refrigerator is;

$$\text{Q.V.C.} = \frac{\$1000 - \$580 \text{ (Parts c, d and e)}}{\$1000} \times 100 = 42\% \geq 40\%$$

Parts b2 isn't counted in the V.N.M. in accordance with paragraph 7 of Article 24. The above calculation shows that the refrigerator qualifies as an originating good of Japan.

If paragraph 7 of Article 24 did not apply, the refrigerator would not qualify as an originating good of Japan as follows:

$$\text{Q.V.C.} = \frac{\$1000 - \$620 \text{ (\$40 (Parts b2) + \$580 (Parts c, d and e))}}{\$1000} \times 100 = 38\% < 40\%$$

1.3 Example of the calculation of Q.V.C. when the exporter or the producer can not determine the originating status of some parts.

Company A produces refrigerators in Japan and plans to export them to Brunei Darussalam under the Agreement.

The PSRs for refrigerator (HS8418.10) under the Agreement are:

A change to subheading 8401.10 through 8473.29 from any other subheading; or

No required change to subheading 8401.10 through 8473.29, provided there is a qualifying value content of not less than 40 percent.

To prove that the refrigerator qualifies as an originating good of Japan, Company A has to prove that the refrigerator satisfies either the CTC rule or the 40% value-added rule. Company A decided to choose the 40% value-added rule.

Company A's manufacturing costs of refrigerator

Material/Parts	Sources	Originating Status	Value US\$
Parts a	Japan	originating	280
Parts b	Japan	originating	140
Parts c	unknown	unknown	unknown
Parts d	unknown	unknown	unknown
Parts e	unknown	unknown	unknown
Other Costs	N/A	N/A	
F.O.B. Price	--	--	1,000

} 580

The calculation of the Q.V.C. of the refrigerator is;

$$\text{Q.V.C.} = \frac{\$1000 - \$580 (\$1000 - \$420 (\text{Parts a and b}))}{\$1000} \times 100 = 42\% \geq 40\%$$

Without regard to the value of Parts c, Parts d, Part e and Other Costs, the above calculation shows that the refrigerator qualifies as an originating good of Japan.

2. Accumulation

2.1 Example of the calculation of Q.V.C. when applying the accumulation principle (paragraph 1 of Article 25)

Company A produces colour TVs (HS8528.12) in Japan and plans to export them to Brunei Darussalam under the Agreement. Tuners (HS8529.90) which are used in the manufacturing process of the colour TV are imported from Brunei Darussalam.

The PSRs for colour TV (HS8528.12) under the Agreement are:

A change to subheading 8524.10 through 8541.90 from any other subheading; or No required change in tariff classification to subheading 8524.10 through 8541.90, provided there is a qualifying value content of not less than 40 percent.

To prove that the colour TV qualifies as an originating good of Japan, Company A has to prove that the colour TV satisfies either the CTC rule or the 40% value-added rule.

Company A decided to choose the 40% value-added rule in this case.

Company A's manufacturing costs of colour TV

Material/Parts	Sources	Originating Status	Value US\$
Parts a	Japan	originating	100
Parts b	Japan	originating	100
Parts c (Tuner)	considered as Japan (Brunei Darussalam)	considered as originating	400
Parts d	India	non-originating	300
Parts e	S. Korea	non-originating	500
Parts f	China	non-originating	400
Other Costs	N/A	N/A	200
F.O.B. Price	--	--	2,000

If Parts c (tuner) is an originating material of Brunei Darussalam, the colour TV may qualify as an originating good of Japan by considering Parts c as an originating material of Japan in accordance with paragraph 1 of Article 25.

The calculation of Q.V.C. of the colour TV is;

$$\text{Q.V.C.} = \frac{\$2,000 - \$1200 \text{ (Parts d, e and f)}}{\$2,000} \times 100 = 40\% \geq 40\%$$

2.2 Example of the calculation of Q.V.C. when applying the accumulation principle (paragraph 2 of Article 25)

Company A produces colour TVs (HS8528.12) in Japan and plans to export them to Brunei Darussalam under the Agreement. Tuners (HS8529.90) which are used in the manufacturing process of the colour TV are imported from Brunei Darussalam. Company B, producing tuners in Brunei Darussalam, uses Brunei Darussalam and Philippine parts to manufacture tuners.

The PSRs for colour TV (HS8528.12) under the Agreement are:

A change to subheading 8524.10 through 8541.90 from any other subheading; or No required change in tariff classification to subheading 8524.10 through 8541.90, provided there is a qualifying value content of not less than 40 percent.

To prove that the colour TV qualifies as an originating good of Japan, Company A decided to choose the 40% value-added rule in this case.

Company A's manufacturing costs of colour TV

Material/Parts	Sources	Originating	Value US\$
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		Status	
Parts a	Japan	originating	300
Parts b	Japan	originating	200
Parts c (Tuner)	Brunei	Non-originating	500
Parts c1	Brunei	originating	80
Parts c2	Philippines	Non-originating	400
Other Costs	N/A	N/A	20
Parts d	India	Non-originating	300
Parts e	S. Korea	Non-originating	100
Parts f	China	Non-originating	400
Other Costs	N/A	N/A	200
F.O.B. Price	--	--	2,000

Even if Parts c (tuner) is a non-originating material, the colour TV may qualify as an originating good of Japan by applying paragraph 2 of Article 25 as follows:

$$\text{Q.V.C.} = \frac{\$2,000 - \$1200 \text{ (Parts c2, d, e and f)}}{\$2,000} \times 100 = 40\% \geq 40\%$$

In accordance with paragraph 2 of Article 25, the value of a non-originating material produced in either Party and to be used in the production of the good may be limited to the value of non-originating materials (Parts c2) used in the production of such non-originating material (Parts c). Therefore, only non-originating portion (Parts c2) of Parts c will be counted in the value of non-originating materials.

If paragraph 2 of Article 25 did not apply, the colour TV would not qualify as an originating good of Japan under the Agreement as follows:

$$\text{Q.V.C.} = \frac{\$2,000 - \$1300 \text{ (Parts c, d, e and f)}}{\$2,000} \times 100 = 35\% < 40\%$$

3. De Minimis

3.1 Example of the application of De Minimis for goods other than textile goods (Article 26 and subparagraph (e) (i) in Part 1 of Annex 2)

Company A manufactures baby carriages (HS8715.00) in Japan and plans to export them to Brunei Darussalam under the Agreement.

The PSRs for baby carriage (HS8715.00) under the Agreement are:

A change to subheading 8701.10 through 8716.90 from any other subheading; or

No required change in tariff classification to subheading 8710.10 through 8716.90, provided there is a qualifying value content of not less than 40 percent.

To prove that the baby carriage qualifies as an originating good of Japan, Company A decided to choose the CTC rule in this case.

Baby carriage is made from Indian aluminium bar (HS7604.10) and Chinese handle grip (HS8715.00). Since handle grip does not undergo “change in tariff classification from any other subheading”, baby carriage does not meet the CTC rule. But if the value of handle grip (HS8715.00) is equivalent to 10% of F.O.B. price of baby carriage or less, Company A is allowed to disregard the portion of handle grip for the purposes of the CTC rule pursuant to de minimis provision of Article 26.

3.2 Example of the application of De Minimis for textile goods (Article 26 and subparagraph (e) (ii) in Part 1 of Annex 2)

Company A produces silk yarn (HS5006.00) in Japan and plans to export them to Brunei Darussalam under the Agreement.

The PSRs for silk yarn under the Agreement are:

A change to heading 50.05 through 50.06 from any heading outside that group.

Silk yarn (HS5006.00) is made from Indian raw silk (HS5002.00) and Chinese silk thread (HS5006.00). Since silk thread does not undergo change in tariff classification, silk yarn does not meet the CTC rule. But if the weight of silk thread is equivalent to 7% of silk yarn or less, Company A is allowed to disregard the portion of silk thread for the purposes of the CTC rule pursuant to de minimis provision of Article 26.

4. Unassembled or Disassembled Goods

Example of a good imported to a Party in a disassembled form but classified as an assembled good (paragraph 1 of Article 30)

Company A produces Gas Turbine (HS8411.82) in Japan, which is an extremely large machine, and plans to export it to Brunei Darussalam under the Agreement. Gas Turbine qualifies as an originating good of Japan. Company A exports it in a disassembled form (a group of lots) for the convenience of transportation. In this case, the Brunei’s customs classifies the group of lots as an assembled good, “the article complete, presented disassembled”, i.e., an assembled gas turbine by virtue of Rule 2(a) of the General Rules for the Interpretation of the Harmonized System¹. Its originating status is not lost and it is classified as Gas Turbine (HS8411.82).

¹ General Rules for the Interpretations of the Harmonized System 2 (a)

2(a) Any reference in a heading to an article shall be taken to include a reference to that article incomplete or unfinished, provided that, as presented, the incomplete or unfinished article has the essential character of the complete or finished article. It shall also be taken to include a reference to that article complete or

finished (or falling to be classified as complete or finished by virtue of this Rule), presented unassembled or disassembled.