Examples of Rules of Origin

1. Qualifying Value Content (QVC)

Example of the calculation of QVC (Application of the formula provided for in paragraph 1 of Article 30)

Company Y manufactures washing machines in Japan and plans to export them to Chile under the Agreement.

The product specific rule for washing machine (HS8450.11) under the Agreement is:

A change to subheading 8450.11 through 8450.20 from any other heading; or
No required change in tariff classification to subheading 8450.11 through 8450.20, provided that there is a qualifying value content of not less than 45 percent when the Build-down method is used, or of not less than 30 percent when the Build-up method is used.

To prove that the washing machine qualifies as an originating good of Japan, Company Y has to prove that the washing machine satisfies either the CTC rule, or the 45% value-added rule (Build-down method) or the 30% value-added rule (Build-up method).

(a) When Company Y uses the method based on value of non-originating materials (Build-down method)

Company Y's manufacturing costs of the washing machine

Material/Parts	Sources	Originating Status	Value US$
Parts A	Japan	Originating good of Japan	370
Parts B	Japan	Originating good of Japan	100
Parts C	**China**	**Non-originating**	**130**
Parts D	**Unknown**	**Undetermined**	**150**
Parts E	**Unknown**	**Undetermined**	**100**
Other Costs	N/A[1]	N/A	150
Transaction Value	--	--	1,000

The formula for calculating the qualifying value content (Build-down method) is:

$$QVC = \frac{TV - VNM}{TV} \times 100$$

QVC is the qualifying value content of the good, expressed as a percentage;

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[1] N/A: not applicable

TV is, except as provided for in paragraph 2 of Article 30, is the transaction value of the good adjusted to F.O.B. basis; and

VNM is the value of non-originating materials used in the production of the good.

Since the origin of Parts D and E are not determined, in applying the formula, value of those Parts should be considered as part of the value of non-originating materials(VNM).

Thus, the calculation of the QVC of the washing machine is:

$$QVC = \frac{\$1,000 - \$380 \text{ (Parts C, D and E)}}{\$1,000} \times 100 = 62\% \geq 45\%$$

This calculation shows that the washing machine qualifies as an originating good of Japan.

(b) When Company Y uses the method based on value of originating materials (Build-up method)

Company Y's manufacturing costs of the washing machine

Material/Parts	Sources	Originating Status	Value US$
Parts A	**Japan**	**Originating good of Japan**	**370**
Parts B	Unknown	Undetermined	100
Parts C	Unknown	Undetermined	130
Parts D	Unknown	Undetermined	150
Parts E	Unknown	Undetermined	100
Other Costs	N/A	N/A	150
Transaction Value	--	--	1,000

The formula for calculating the qualifying value content (Build-up method) is:

$$QVC = \frac{VOM}{TV} \times 100$$

QVC is the qualifying value content of the good, expressed as a percentage;

TV is, except as provided for in paragraph 2 of Article 30, is the transaction value of the good adjusted to F.O.B. basis; and

VOM is the value of originating materials used in the production of the good.

Since it is known that Parts A is originating good of Japan, Company Y found that it would be easier to use the Build-up method because it is clear that QVC of the washing machine will be more than 30%, taking into account the value of Parts A only. In this case, Company Y does not need to check the originating status of other parts, including Parts B.

Thus, the calculation of the QVC of the washing machine is:

$$QVC = \frac{\$370(\text{Parts A})}{\$1,000} \times 100 = 37\% \geq 30\%$$

This calculation shows that the washing machine qualifies as an originating good of Japan.

2. Accumulation

Example of the calculation of QVC, when applying the Accumulation provision (Article 33)

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

The product specific rules for colour TV (HS8528.12) under the Agreement are:

A change to heading 85.25 through 85.28 from any other heading; or
No required change in tariff classification to heading 85.25 through 85.28, provided there is a qualifying value content of not less than 45 percent when the Build-down method is used, or of not less than 30 percent when the Build-up method is used.

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 qualifying value content of not less than 45 percent when the Build-down method is used, or of not less than 30 percent when the Build-up method is used.

Company A decided to choose the method based on value of originating materials (Build-up method) in this case.

Company A's manufacturing costs of colour TV

Material/Parts	Sources	Originating Status	Value US$
Parts a	**Japan**	**Originating good of Japan**	**100**
Parts b	**Japan**	**Originating good of Japan**	**200**
Parts c (Tuner)	**Chile**	**Originating good of Chile** (considered as originating material of Japan)	**400**
Parts d	India	Non-originating	200
Parts e	S. Korea	Non-originating	500
Parts f	China	Non-originating	300
Other Costs	N/A	N/A	300

| Transaction Value | -- | -- | 2,000 |

If Parts c (tuner) is an originating good of Chile, the colour TV will qualify as an originating good of Japan by considering Parts c as an originating material of Japan in accordance with of Article 33.

The calculation of QVC of the colour TV is:

$$QVC = \frac{\$700 \,(\text{Parts a, b and c})}{\$2,000} \times 100 = 35\% \geq 30\%$$

3. De Minimis

3.1 Example of the application of De Minimis for goods other than textile goods (Article 32 and subparagraph (f) (ii) in Section 1 of Annex 2)

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

The product specific rules for baby carriage (HS8715.00) under the Agreement are:

> *A change to heading 87.05 through 87.16 from any other heading; or*
> *No required change in tariff classification to heading 87.05. through 87.16, provided there is a qualifying value content of not less than 45 percent when the Build-down method is used, or of not less than 30 percent when the Build-up method is used.*

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 aluminum bar (HS7604.10) and Chinese handle grip (HS8715.00). Since handle grip does not undergo "change in tariff classification from any other heading", baby carriage does not meet the CTC rule. But if the value of handle grip (HS8715.00) is equivalent to 10% of transaction value 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 32.

3.2 Example of the application of De Minimis for textile goods (Article 32 and subparagraph (f) (iii) in Section 1 of Annex 2)

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

The product specific rule for silk yarn under the Agreement is:

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 32.