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In cooperation with



MINISTRY OF INDUSTRY,  
TRADE AND SUPPLY  
THE HASHEMITE KINGDOM OF JORDAN

TRADE FOR EMPLOYMENT

# The Pan European-Mediterranean Free Trade Area Preferential Market Access And Its Rules Of Origin Manual At The Benefit Of The Private Sector Stakeholders In The Hashemite Kingdom Of Jordan







### Foreword by the Minister of MOITS, H.E. Yousef Mahmoud Al Shamali

I am pleased to present before you the handbook prepared in partnership with GIZ. The handbook aims to help the Jordanian exporters establish awareness on the rules of origin in the framework of the partnership agreement with the European Union, EFTA States, countries of the Agadir Agreement as well as with all other relevant parties on a better compliance with the requirements of the “Regional Convention on Pan-Euro-Mediterranean Preferential Rules of origin” (PEMC).

The importance of this handbook stems from being a part of the distinguished efforts made by the Government of the Hashemite Kingdom of Jordan. It will help in educating Jordanian private sector about the partnership agreement with the EU in terms of the general provisions, rules of origin, manufacturing processes required for the acquisition of Jordanian origin, the mechanism of applying origin cumulation with Euro – Med countries to facilitate the access of the Jordanian products to the large EU market, exempted from customs duties and taxes of similar effect.

The handbook includes the amendments made to the Protocol on rules of origin of the EU-Jordan Association Agreement for simplification of rules to export to the EU.

The decision of the EU- Jordanian Committee that provides for the adoption of simplified rules of origin for exporting Jordanian industrial products to access the EU market was signed. This will contribute to the development of our national industry, increase its exports to the EU market, encourage and attract more local and foreign investments to benefit from this feature.

According to the decision, the Jordanian producers may export many of the Jordan manufactured products listed under the (52) chapters identified in the agreement which were not able to access Europe such as: garments, furniture, electric and electronic products (TVs, air conditioners and refrigerators), cables, buses, aluminum products, various kinds of chemical products, paints, adhesives, cement, mineral oils, plastics, precious metals, stone and marble products, detergents, soaps and cosmetics, among others.

Wishing that the Jordanian industrial sector representatives to read this handbook to maximize the benefit from the EU-Jordanian partnership agreement and from the EU decision of simplifying the rules of origin.

I also extend my sincere thanks to everyone who contributed to the preparation of this guide, wishing more progress and success for our national industry, and for all sectors operating in our beloved country to benefit from it.

His Excellency,

Yousef Mahmoud Al Shamali

Minister of Industry, Trade and Supply





**Foreword by the Ambassador of the  
Federal Republic of Germany to Jordan  
H.E. Bernhard Kampmann**

It is my utmost pleasure to present “The Handbook on Rules of Origin” to Jordan’s business community and public institutions.

The handbook provides businesses in Jordan with a practical guide on specific market access requirements, in particular the Rules of Origin schemes, which determine the goods that qualify for lower tariffs under Free Trade Agreements (FTAs). It can also help customs authorities and relevant Ministries in applying duties correctly to the benefit of businesses. It covers Jordan’s FTAs with the European Union (EFTA), the Arab Mediterranean Free Trade Agreement as well as the Pan-Euro-Mediterranean Convention on Rules of Origin and can thus be an important tool to take full advantage of trade opportunities and increase Jordan’s exports to Germany and the EU within the framework of the Jordan-EU Association Agreement.

The European Union is Jordan’s biggest trade partner, accounting for 14.7% of its trade in 2020, with 20.6 % of imports coming from the EU. In the same period, only 2.1% of Jordan’s exports were destined to the EU. The potential for increasing Jordanian exports is significant, as there are a lot of opportunities for exporters to benefit from the preferential treatments available. Yet, gains will only be achieved when existing opportunities are unleashed and fully utilized.

Germany has been a long-standing partner to Jordan in the field of economic cooperation and development. Together we have achieved significant results in the areas of education, employment promotion, water and sanitation and environmental protection. Our countries are cooperating closely to enhance trade relations and promote employment in Jordan.

We are delighted to join forces with the Ministry of Industry, Trade and Supply, the Secretariat of the Union for the Mediterranean and the private sector in Jordan in further promoting trade integration, sustainable development and social inclusion to eventually boost employment opportunities, improve livelihoods and reduce poverty. I hope this manual will serve as a valuable tool to take full advantage of trade opportunities and thus further strengthen Jordan’s economic relationship with Germany and the EU. Let us seize the opportunity for the benefit of inclusive and thriving companies and economies.

Sincerely,

H.E. Bernhard Kampmann,

Ambassador of the Federal Republic of Germany to the Hashemite Kingdom of Jordan.





## Foreword by the UfM Secretary General, H.E. Nasser Kamel

The COVID-19 pandemic has aggravated the already-existing socio-economic disparities within and beyond the Euro-Mediterranean Region, and has highlighted a pressing need to rethink supply chain logistics, trade integration, and economic policies in general. In view of this crisis, any 'new normal', in which enhanced trade and economic integration are not actively championed, would not stand up to the legitimate aspirations of people on both shores of the Mediterranean and beyond.

The trade flows in the UfM Region are extremely skewed, with most of the intra-regional trade occurring within the EU. This translates to a lost opportunity, but also means a huge potential for promoting South-South cooperation and trade integration in the Mediterranean at large.

Trade and investment hold the key to unleashing a massive economic potential and the creation of sustainable jobs. The UfM Secretariat, in cooperation with GIZ, has set in motion a series of technical trainings on trade-related topics in the MENA region, to promote the opportunities that the Euro-Mediterranean Association Agreements offer for economic growth.

In this spirit, I am pleased to present to you this handbook on Rules of Origin that was jointly developed by the UfM Secretariat, the Hashemite Kingdom of Jordan and the German Development Cooperation, with a focus on the agreements with the EU, the EFTA, and the Agadir countries, as well as with all other relevant parties to the Pan-Euro-Mediterranean Convention on Rules of Origin. The UfM Secretariat will stand committed to accompany all future efforts to promote trade facilitation and integration in the Mediterranean region.

Sincerely,

H.E. Nasser Kamel

UfM Secretary General







## Foreword by the Chairman of Jordan Chamber of Industry

Dear Reader,

Warm Greetings,

It is with great pleasure we introduce this manual as a joint effort of the collaboration with the Trade for Employment Project, implemented by GIZ on behalf of the German Federal Ministry of Economic Cooperation and Development and the Kingdom of Netherlands, in the framework of their valuable contributions to the elevation and improvement the export capabilities of Jordanian companies. The manual at hand, is an extremely valuable tool for all exports interested in penetrating new markets and achieving compliance.

In the past few years, Jordan Chamber of Industry has identified supporting exports as one of its main priorities in order to assist the industrial firms to grow, develop, and consequently positively contribute to economic development. To achieve this goal several initiatives has been put forward, on top of which comes the establishment of a specialized unit in JCI which provides export services that follow the world best practices and stretch across a wide array of technical assistance areas. Today, the Jordan Export Services Unit (JIES) provides a portfolio of services that include export readiness assessments and audits, market information analysis and direct advisory and capacity building services. The most important factor for the success of this effort is creating meaningful linkages with various stakeholders in order to fill any gaps, and ensure exporters receive full guidance and assistance.

Understanding the profound role of private sector member-organizations in economic growth and social development, JCI is in constant search for partnerships for value-added projects aimed at achieving concrete results. We are proud with our collaboration with GIZ for many years, which has been translated in many initiatives and programs that proved to be value-adding and sustainable. I am glad to put in your hands, this manual as another example of concrete and very useful outputs of our joint efforts with the German Development Cooperation and Netherlands, and I am confident it would be of great benefit to all relevant readers.

Sincerely,

Eng. Fathi Al Jaghbier.

Chairman Jordan Chamber of Industry

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## List of Acronyms

<b>AA</b>	Association Agreement
<b>AfCFTA</b>	African Continental Free Trade Agreement
<b>ASEAN</b>	Association of South East Asian Nations
<b>BOI</b>	Binding Origin Information
<b>CMP</b>	Cutting, Making & Packing
<b>CO</b>	Certificate of Origin
<b>COMESA</b>	Common Market for Eastern and Southern Africa
<b>DC</b>	Developing Country
<b>EAC</b>	East African Community
<b>EBA</b>	Everything But Arms
<b>eCO</b>	Electronic Certificate of Origin
<b>EEZ</b>	Exclusive Economic Zone
<b>EFTA</b>	European Free Trade Area
<b>EPA</b>	Economic Partnership Agreement (of the EU with third countries)
<b>EU</b>	European Union (or synonymously used EC – European Community)
<b>FDI</b>	Foreign Direct Investment
<b>FTA</b>	Free Trade Agreement
<b>FZ / FEZ</b>	Free Zone / Free Economic Zones consisting of a closed area with or without buildings or warehouses that stays under customs control
<b>GAFTA</b>	Greater Arab Free Trade Area
<b>GATT</b>	General Agreement on Tariffs and Trade of 1948, afterwards integrated in the Marrakesh Agreement of 1994
<b>GSP</b>	Generalised System of Preferences (in favour of developing countries)
<b>GVCs</b>	Global Value Chains
<b>HS</b>	Harmonized System (Harmonized Commodity Description and Coding System)
<b>INCOTERMS</b>	International Commercial Terms as published by the International Chamber of Commerce (ICC)
<b>JUSFTA</b>	Jordan – USA Free Trade Agreement
<b>LDC</b>	Least Developed Country
<b>MFN</b>	Most Favoured Nation
<b>NSW</b>	National Single Window
<b>NTB</b>	Non-tariff Barriers (to trade)
<b>PEMC</b>	Paneuromed Convention (on Rules of Origin)
<b>RECs</b>	Regional Economic Communities
<b>REX</b>	Registered exporter (EU GSP)
<b>RKC</b>	Revised Kyoto Convention (International Convention on the Simplification and Harmonization of Customs procedures)
<b>ROO</b>	Rules of Origin
<b>RTA</b>	Regional Trade Agreement
<b>RVCs</b>	Regional Value Chains
<b>SEZ</b>	Special Economic Zone
<b>SPS</b>	Sanitary and Phytosanitary Measures

<b>TARIC</b>	Online Integrated Tariff Database of the EU
<b>TBT</b>	Technical Barriers to Trade
<b>TCF</b>	Textiles, Clothing and Footwear products
<b>TR</b>	Transitional Rules - Refers to the amendment of EU-Jordan AA Protocol 3 on Rules of Origin, Appendix A – Alternative Applicable Rules of Origin, as contained in EU Commission Proposal (COM) 2020/417 of 24 August 2020
<b>UCC</b>	Union Customs Code
<b>UNCLOS</b>	UN International Convention of the Law of the Seas (1982 Montego Bay Convention)
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>USMCA</b>	United States Mexico Canada Agreement
<b>WCO</b>	World Customs Organization (officially CCC, Customs Cooperation Council)
<b>WTO</b>	World Trade Organization





**1**

# **International Trade and Rules**



## 1.1 Introduction

International trade is vital for producers, exporters and traders established in Jordan. And as important as trade is market access to other countries, so that goods produced in Jordan might access other country's consumers and industries at better conditions. Since antique times, Jordan is part of the traditional trading routes, prominently the city of Petra that offered shelter, water and food to the caravans crossing from North to South, from West to East.

In modern times, trade continues to be essential, above all trade of own products from Jordan to the world. Modern countries however put into place rigid borders and with it, border measures like customs duties. Further market requirements often hinder – voluntarily or not – market access. Multilateral, regional, and bilateral efforts try to overcome those obstacles and reduce or eliminate trade barriers. The multilateral aim culminated in the establishment of the World Trade Organisation (WTO) in the year 1994. Regional solutions usually take the form of bilateral or regional free trade agreements. Another option is to form a Customs union, which means all countries inside a customs union apply the same external customs tariff and also follow the same trade policy objectives. Both forms are an exception to the so-called “most-favoured nation” (MFN) treatment but are allowed through Article XXIV of the General Agreement on Tariffs and Trade (GATT 1947). The article, like the original GATT agreement, was carried over to the WTO Agreement.

Thus, to ensure the best possible treatment for Jordanian products abroad, Jordan has for instance joined the WTO in the year 2000. This guarantees that Jordanian products benefit from the so-called “most-favoured nation” (MFN) and “national” equal treatment. Furthermore, Jordan Government undertook to negotiate several free trade agreements with the most important neighbouring and export markets.

While the WTO Agreement is a multilateral legal system, free trade relations are mostly concluded on a regional or bilateral basis.

Thus, importers, exporters, and Government agencies must verify every time for the specific conditions to access the respective market, and how products might qualify for preferential treatment and likewise for products crossing into Jordan.

This manual focusses on the agreements with the EU, the EFTA, and the Agadir countries, and the other countries participating in the Paneuromed Convention on Rules of Origin with whom Jordan has concluded free trade relations. The main goal of this manual is to enable Jordanian exporters to comply with the requirements of the PEMC, as well as Jordan Compact and – in future – the so-called Transitional Rules (TR), new set of Rules of origin that will grant preferential tariff treatment to their products. Please note that at the moment of publication of this manual, the Transitional Rules have not yet been adopted and entered into force.





## 1.2 Tariff Treatment and Conditions for Preferential Market Access

Regarding Jordanian exports to the EU and EFTA countries, there are three basic scenarios applicable to products accessing their market:

- WTO - MFN tariff treatment;
- Preferential access based on a free trade agreement; and
- Preferential access for developing countries, unilaterally granted in the form of the Generalised Scheme of Preferences – based on the set of rules unilaterally prescribed by the so-called “donor country”.

For a while, Jordanian products enjoyed or still enjoy trade preferences granted by donor countries, in form of the Generalised System of Preferences for developing countries (GSP). The GSP is a unilateral concession from some developed countries, however, conditions might change at any moment, as terms, product and country coverage might change at relatively short notice.

However, nor the EU nor the EFTA countries grant GSP concessions to Jordan anymore, thus, only the first two options remain. The same is valid for accessing the EFTA countries. But the option is still valid for exports towards the USA for instance (although the respective free trade agreement might be an alternative).

In the context of exporting to Egypt, Jordanian exporters have the choice in applying:

- the Agadir Free Trade Agreement,
- the GAFTA or
- the bilateral trade agreement.

However, if the producer or trader in Egypt wants to further use Jordanian inputs in the context of the PEMC and trade with Europe, he ultimately will need to apply the Agadir Free Trade Agreement only.

## 1.3 Essential Conditions for Preferential Treatment

It is particularly important to check at the outset, if the product concerned is covered by the concession list negotiated in the free trade agreement, and what tariff rate was agreed. Not always, free trade agreement means that all the trade is free.

Basically, four conditions must be fulfilled to benefit from preferential treatment:

1. The goods must originate in a partner country of the bilateral or regional agreement in accordance with the relevant rules of origin.
2. A valid proof of origin must be submitted. The so-called movement certificate EUR.1 or EUR-MED, or invoice declaration (self-certification).
3. The free trade partner must comply with a series of administrative obligations, i.e., issuing the relevant certificates and granting mutual administrative assistance in cases of post-verification of proofs of origin.
4. Meet the direct transport rule.

**The manual will guide you step by step through these conditions.**







2

## The Determination of The Origin of Goods

## 2.1 Introduction to Rules of Origin

It has been mentioned that “Jordanian” products are exported. But how to define or find out what Jordanian products are? How to give the “citizenship” or “Jordanian passport” to a specific product or good?

To do exactly that, countries have established a legal framework to define the country, where products are obtained or produced, the so-called “**rules of origin**”.

**Rules of origin in short:**

- are needed to define **where** a product has been made, produced, obtained meaning where it “originates”.
- are an essential part of trade rules when “discrimination” is present or specific “tariff” treatment applies.
- needed to distinguish between national and foreign goods (National treatment as well as other domestic disciplines -marketing, consumer protection, public procurement)

For MFN/WTO treatment, countries have put “**non-preferential rules of origin**” in place, while for preferential treatment, free trade agreements as well contain sets of “preferential rules of origin”. In short, rules of origin make sure, that a special treatment, special condition, exception, or preference is targeting the partner country’s product only, but not the one from other third countries.

**NOTE:** Rules of origin must separate the own products from other products of third countries, because the tariff treatment or other trade measures upon importation might differ.

## 2.2 WTO Non-Preferential Rules of Origin

As outlined beforehand, Jordan chose to join the WTO to secure fair and equal market access conditions to other markets. Products from members of the WTO enjoy indeed some good advantages:

- **MFN duties:** WTO Members committed to lower their tariffs since the launch of the GATT 1948 (General Agreement on Tariffs and Trade), commitment that continued also in the Marrakesh Agreement in 1994 that lead to the creation of the WTO. MFN duties negotiated are lower than third-country tariffs. Thus, being a Member of the WTO brings also advantages at tariff level, although MFN tariffs usually are not at zero percent. Most-favoured duties are applicable equally to all Members, this should ensure that for instance Country X, Member of the WTO, will not apply a tariff rate of 5% to products from Turkey and 20% to products from Jordan. MFN means that Country X must apply the same, lower tariff treatment, therefore the MFN “applied rates” of 5%.
- **National treatment:** This ensures that local products are not favoured unfairly against imported goods. For instance, Germany could not apply a more stringent rule for product safety or consumer protection on a Jordanian product, than for a German one. National treatment means that Jordanian

products will have the same treatment in another market as the ones made in that country and those imported from other WTO members.

- **Reduction of non-tariff barriers:** The WTO streamlined legal requirements to introduce, maintain and apply non-tariff barriers. However, non-tariff barriers did not really lessen, as several countries learned on how to apply the WTO Agreement, thus it led to a proliferation of non-tariff measures. Nevertheless, both parties involved in tariff barriers learned their rights to defend their positions.
- **Transparency of trade measures:** The WTO rules greatly enhanced transparency of international trade, requiring Members to consult on, solve and publish trade measures. The WTO also monitors trade policy measures by regular review of the countries (trade policy review).

To distinguish among WTO Members and third parties, members put in place their own schemes of non-preferential rules of origin. Some members even did not bother to formalise non-preferential rules of origin. This is a bit confusing for economic operators, as potentially, exporters and importers might face over 170 origin schemes and trade measures. The WTO Agreement of 1994 contained a mandate to negotiate and harmonise non-preferential rules of origin, that would apply globally. Unfortunately, Members did not agree yet on a common set of rules as the harmonisation efforts are stalled at the WTO.

It might happen, that economic operators from other countries specifically ask for the “national origin” of Jordan. This could be the case for instance:

- The importing country has trade restrictive measures into place, i.e., WTO tariff quotas, safeguard, anti-dumping or countervailing measures, trade surveillance measures, or access restrictions for some goods for reasons of national security or interest.
- Government (**public**) procurement: Importer or end-user might need proof of Jordanian origin to meet procurement requirements in his country, if the importer participates in a public tender of his authorities, and only a few countries’ origins would be allowed.
- Statistical purposes: some importing countries still require original Certificate of origin for importation, to clear goods and to reflect imports correctly in their statistics.

Note: The “national origin” and related Certificate of Origin issued by a Chamber of Industry does not give a right to preferential treatment under a Free Trade Agreement, nor is it a priori a sufficient proof of origin for verifying preferential origin.

## 2.3 Free Trade and Preferential Rules of Origin

As seen earlier, WTO membership does not yet yield a tariff free trade. The last step of tariff reduction is the customs tariff level between the MFN- and ideally a zero-tariff treatment. Only this last step is essentially the goal of a classic **Free Trade Agreement (FTA)** among two or more partner countries. At the advent of

globalisation, more countries joined the trend to conclude free trade agreements, leading to more than 500 trade agreements or similar arrangements (into force and under negotiation). Each of all those agreements potentially contains a set of rules of origin, which might probably be different from each other.

Another option of deeper integration is a **Customs union**, whereas countries join to form a single customs territory and have a common external customs tariff (and basically, a common external trade policy). This is the case for instance with the **European Union**. Thus, it would not matter, if the goods from Jordan are exported to Spain, to Sweden, to Italy or to Germany. All Members of the EU have the same external tariff. At the interior, inside the EU, there are no customs tariffs anymore, the goods will circulate freely among all Members. A customs union however has no effects on internal taxation and other internal measures. Since 2015, the Gulf Cooperation Council (GCC) established a customs union as well. The East African Community (EAC) formed a customs union but have yet some implementation steps, thus it is not yet fully operational.

In addition to its membership in the World Trade Organization which came into force in the year 2000, Jordan actively sought to conclude free trade agreements with major economic blocs as follows:

Agreement	Date Signed	Date of Entry into Force
The Greater Arab Free Trade Area (GAFTA)	19/2/1997	1/1/1998
Jordan- EU Association Agreement	24/11/1997	1/5/2002
Jordan-US Free Trade Agreement	24/10/2000	17/12/2001
Jordan-EFTA Free Trade Agreement <sup>(1)</sup>	21/6/2001	1/1/2002
The Agreement Establishing a free Trade Area amongst Arab Euro- Mediterranean Countries (The Agadir Agreement) <sup>(2)</sup>	25/2/2004	6/7/2006
Jordan-Singapore Free Trade Agreement	16/5/2004	22/8/2005
Jordan-Canada Free Trade Agreement	28/6/2009	1/10/2012

It is not easy for the economic operator to figure out, how and where to find the appropriate preferential rules of origin as the agreements somehow differ in content and layout from each other. The EU however negotiates usually “Association Agreements” with its partners. Therein, the rules of origin are contained in a separate Annex or Protocol. The EU expanded rapidly their free trade agreements network in Eastern Europe and Mediterranean. At the same time, other trade partners

(1) The EFTA states; Iceland, Liechtenstein, Norway and Switzerland  
 (2) The Agreement includes Jordan, Egypt, Tunisia and Morocco. Noting that the accession of Lebanon and Palestine to the Agadir Agreement was approved. The entry into force of the agreement for the two countries is subject to the completion of administrative procedures.

of the EU, like the EFTA countries, did similarly. This led to an exponential raise of agreements reaching over 60. Again, each of those agreements contained a distinct set of rules of origin.

To facilitate the application of so many agreements, the EU has initiated the conclusion of the “**Regional Convention on Pan-Euro-Mediterranean Preferential Rules of origin**” (PEMC), that entered into force in 2013. The PEMC collects the rules of origin of the European and Mediterranean partner Agreements, from EU, EFTA; Jordan, Egypt, Tunisia, Morocco, Ukraine, and others, into **one single legal instrument**. The main condition of the PEMC is that countries should conclude still free trade agreements among each other’s, a fact that is not realised until now. Thus, importantly, the PEMC is not a standalone trade agreement, but only applies uniform rules of origin. It is only applicable with those countries, that the exporting country has concluded a free trade agreement.

Lately, there have been some exceptions to this uniform approach again, thus, in the context of Jordan, the user might find again some confusing but appealing choices:

CHOICES		
Applicable	Applicable	Not Into Force Yet
The main rules of origin as contained in the PEMC (which again, includes exports towards the EU, EFTA, and all other participating countries). The PEMC was supposed to be revised but the revision is on hold now.	Alternative Rules of origin in the context of the <b>EU – Jordan COMPACT</b> arrangement (thus, only in the context of exports towards the EU). A special set of rules of origin for specific goods only (and specific HS Chapters) was decided in 2016, and, upon demand from Jordan, amended and substituted on 4 December 2018. Jordan Compact enlarges the coverage of the special treatment and reduces the administrative barriers for exporters to claim and proof Jordanian origin. EU-Jordan COMPACT is valid until the year 2030.	Transitional Rules of origin to the PEMC, contained again in the bilateral Protocols of each Agreement (EU proposal)  These transitional rules of origin would again apply to all those partners, that accepted the new set of rules of origin.  Jordan and the EU will agree on this new version in a near future and the entry into force (eventually 2021).  Validity is provisional, until the PEMC undergoes a revision in a similar way to this transitional set.

**Note:** In all those cases, it is not the competent authority but the producer or exporter that might choose the rules of origin that best fit his needs. If a producer in Jordan is sure he is satisfying already the PEMC rules of origin, nobody will force him to apply Jordan Compact for instance.

## 2.4 “Origin Strategy” for Business Operators

For private operators, meaning producers, exporters, traders, there is a sort of “origin strategy” to develop and acknowledge. Before even starting to apply rules of origin, economic operators should make sure of the following:

- **Correct identification and description of the product.** An LCD screen is different from a TV screen, or a cement pot is different from one made of terracotta.
- Based on the product description, identify the correct tariff classification in the Harmonised System (HS), or the first 4- or 6-digit numbers of the applicable customs tariff. This reveals sometimes challenging, as small differences in weight, product composition, materials used, processes carried out, or dimensions can greatly influence the **tariff classification**.

- Based on the classification, economic operators should also identify, if their product is included in the respective free trade agreement, meaning if there is a tariff concession. In some agreements, sensitive products are left out, mainly in the agricultural sector. It can also be, above all in context of newer agreements, that tariff preferences are not reduced to zero but only to a certain percentage of “discount” or are reduced during a transitional phase (so-called tariff dismantling schedule, which could take some years to reach zero duties).
- Additionally, in the case of exports towards the EU or the EFTA countries, it is also advisable to verify if the **MFN tariff is already at zero**. Indeed, after many rounds of tariff reductions during GATT/WTO rounds, both the EU and the EFTA countries have relatively low tariff rates on industrial goods, and several tariff lines are already at zero.



NOTE: A free trade agreement cannot go below zero tariff. Thus, before going through the lengthy process of defining the origin of a product, economic operators should ensure that there truly is a margin of preferential tariff preference applicable for their exported product.

- **Originating status** of the materials and products, once confirmed that there is a preferential treatment, should be **checked in advance**, best already at the stage of investing into a production line, or at least when buying the components and materials, to guarantee the production of the product to be exported meets the origin criteria.
- To check the origin – which happens often – only after production, at the time of exporting, bears the risk that the product might not be originating. While, if operators check in advance, they might still be able to switch supplier for

certain parts or components to be able to meet the rules of origin applicable(i.e., in case of value-added or tariff shift rules, origin can change or be influenced through a good sourcing strategy, or to apply cumulation).

**Overall, this should lead, at enterprise level, to a common origin awareness of the export unit or division, but also and importantly, of the unit in charge of sourcing the inputs for production.** Not always the cheapest inputs bought in a third country will help to achieve originating status, thus, the company has to decide whether to use the cheapest inputs, and forget about preferential treatment on one side, or, on the other side, buy some materials from PEMC zone (and with respective proof of origin) and achieve an originating product that can be marketed duty-free in the PEMC area.









3

## The Preferential Rules of Origin

### 3.1 Legal Requirements

Assuming there is indeed a preference for the products to be exported and preferential treatment is requested for their exports to free trade partners of the PEMC, then Jordanian producers and exporters need to be compliant with the pertinent Rules of origin.

Thus, the important question arises, what are those rules of origin?

EU related Agreements, the PEM Convention, as well as other Agreements like Agadir, they feature only a reference in the main Agreement which basically refers to an Annex, Appendix or Protocol for the applicable rules of origin. Usually, the title of the origin annex or protocol will read “The definition of the concept of “originating products and methods of administrative cooperation”. Only there, readers will find the correct origin rule applicable and depending on the HS classification of the product.

Legally speaking, readers have first to check for instance in the bilateral “EURO-MEDITERRANEAN AGREEMENT” establishing an Association between the European Communities and their Member States, of the one part, and the Hashemite Kingdom of Jordan, of the other part. Therein, Article 28 of the general rules refer to Protocol No. 3 of the Agreement for the concept of ‘originating products’ and methods of administrative cooperation. Similarly, EFTA-Jordan free trade agreement refers as well just to the protocol on rules of origin.

The occasional reader might find an original text of the Agreement of the year 2002, thus missing the recent amendments. Origin determination will not fail in principle, as the rules of origin got transposed almost unaltered into the PEM Convention. Nonetheless, it is always advisable to research an updated, consolidated version of legal texts.

Protocol 3 of the Association Agreement EU-Jordan has been amended accordingly to determine not the origin itself, but just to carry a reference to the PEM Convention. In the latter, the rules of origin are contained in Appendix I [one]. Only there, Government and private sector stakeholders find the rules of origin applicable. Thus, the simple referral from the Agreement itself has become a 3-step procedure just to find the rules of origin.

In the meantime, since 2016, Protocol 3 of the Association Agreement has been amended, as the EU and Jordan agreed in that year to introduce a set of special rules of origin for specific chapters of the HS and under specific conditions to be fulfilled by Jordan. The rules of origin were launched under the name of “EU JORDAN COMPACT” and are aligned with the EU Generalised System for Preferences for Developing Countries (GSP), especially they carry over the liberalised rules of origin for Least Developed Countries (LDC). In December 2018, said special rules of origin got amended eventually, ameliorating the conditions for Jordan to profit from the EU Jordan Compact, and including 52 Chapters of the HS.

Exporters and producers have also to be aware that the rules of origin of the PEM Convention are supposed to be amended during 2021. To avoid longer implementation troubles of the Convention itself, the PEM Convention will be amended

bilaterally in each Agreement through so-called “Transitional” protocols on Rules of origin. Once adopted, the Transitional Rules will be alternatively applicable to the current rules of origin in the PEMC. For Jordan, the EU-Jordan Compact agreement will stay as an alternative system.

Thus, in a near future, Jordanian exporters might have to adapt to a new set of rules of origin. The details of the different sets will be highlighted hereafter. It can be anticipated that the new rules of origin will facilitate certain general, but also product specific rules of origin.

### 3.2 The Origin of Products (PEMC; Appendix I, Art. 2ff) (TR, Appendix A, Art. 2ff)

Products can be obtained in various ways and rules of origin will make sure, that only the products covered by the respective free trade area will also be granted the preferential treatment. Sometimes, books and articles refer to a “legal discrimination” of third-party goods vs. preferential ones. But as seen previously, the GATT, now WTO allows especially customs union and free trade agreements as an exception to the MFN principle. A waiver has also been granted to the GSP as launched by the UNCTAD, a third exception to the principle of most-favoured nation.

There are essentially **three origin criteria applying for “goods” / “products”**:

- “wholly obtained” products, genuinely obtained exclusively in Jordan.
- “Sufficiently worked or processed” rules applicable to products, which incorporate materials from third countries.
- “Tariff shift” rule

**NOTE:** The EU-Jordan COMPACT arrangement does not alter the applicable general rules, but only the rules of origin in the so-called list rules themselves.

On the other hand, the future transitional rules of origin will supplement the PEMC as such. In this Chapter, only the differences will be highlighted accordingly, hereafter as Transitional ROO, which stands for the “Alternative Protocol on Rules of Origin”. Indeed, a bit confusing, the protocol is entitled “Alternative” but further defines that the same protocol will be referred to as “Transitional Rules of Origin”. Again, those rules will enter into force only in a near future, eventually during 2021.

### 3.3 Wholly Obtained Products of Jordan (PEMC; Appendix I, Art. 4) (TR, Appendix A, Art. 3)

Straightforward said, wholly obtained rules of origin are the easiest to apply as the product in question should originate in one single country, thus not containing any third-country inputs. Wholly obtained products are usually found in agriculture, fishing,

and mining. In manufacturing, some exceptional circumstances and practical thinking lead to integrate a rule on wholly obtained materials in case of waste and scrap.

There is just the need to define, when and how something has been obtained in a country, i.e., in Jordan:

1. mineral products **extracted** from its soil or from its seabed;
2. plants and vegetable products **harvested** there;
3. live animals **born and raised** there;
4. products from live animals **raised** there;
5. products obtained by **hunting or fishing** conducted there;
6. products of sea fishing and other products **taken from the sea** outside the territorial waters of the exporting Contracting Party by its vessels;
7. products made on board its factory ships exclusively from the products referred to in (f);
8. used articles collected there fit only for the recovery of raw materials, including used tyres fit only for retreading, or for use as waste;
9. **waste and scrap** resulting from manufacturing operations conducted there;



10. products extracted from marine soil or subsoil outside its territorial waters provided that it has sole rights to work that soil or subsoil;
11. goods produced there exclusively from the products specified in (a) to (j)

The Transitional ROO will introduce just a new definition of wholly obtained for “aquaculture”, specifying that fingerlings, larvae, fry, or eggs might be used to obtain wholly obtained fish, crustaceans, molluscs, and other aquatic invertebrates.

#### Examples of wholly obtained products:

Except for the textiles sector, main exports of Jordan are from mining and farming activities and fall under the “wholly obtained” category, for instance:

- Potassium chloride (extraction through mining)
- Phosphoric acid; polyphosphoric acids, whether or not chemically defined (Extraction)
- Natural calcium phosphates (Extraction)
- Other phosphates (Extraction)

In the rich agricultural tradition of Jordan, also olive oil pressed from Jordanian olives would be wholly obtained in Jordan.



The same is true for salt obtained from the Dead Sea area through extraction or through evaporation of water. Other fresh agricultural products like tomatoes, cucumbers or sesame seeds obviously qualify also for Jordanian origin, if they are harvested in Jordan. Similarly, live animals born and grown up in Jordan qualify as wholly obtained here.

For one of the Jordanian specialities, like “Za’atar”, it is already a bit more difficult to say if it is wholly obtained. Za’atar is a mixture of sumac, thyme, roasted sesame seeds, marjoram, and oregano. Thus, to qualify as wholly obtained, all single ingredients must be wholly obtained in Jordan. If only one of the ingredients was imported, this would disqualify the mixture as “wholly obtained”. Thus, in that case, the producer of Za’atar would be required to check out the next chapter hereafter, and check if his product is sufficiently transformed (or technically speaking, the imported ingredient).

For cosmetics, like for Dead Sea products for instance, if a Jordanian producer uses raw materials originating only in Jordan, like dead sea mud and salt, water, emulsifier, additives, they could qualify as wholly obtained (in principle, packaging can be ignored). It can be assumed however, that in a cream or facemask, there are several more components, of which some had to be imported. Thus, in this case, it is more probable that cosmetics producers must check out the list rules and verify if they have sufficiently transformed the foreign inputs and if they can claim Jordanian origin for their products.

### 3.4 Sufficient Transformation of Imported Materials (PEMC; Appendix I, Art. 5) (TR, Appendix A, Art. 4)

**NOTE:** To avoid some mistakes of business operators, it is worth pointing out that, if their product, for instance flowers, spices, fruits, vegetables, meat, or olive oil qualify as “Wholly obtained”, they do not have to apply further origin rules and can skip this section and refer directly to the administrative part under Chapter 7!

Unlike other Rules of Origin systems, the Paneuromed Convention and its Rules of Origin, the EU-Jordan Compact [and the Agadir Agreement] do not contain any horizontal rules of origin on sufficiently worked or processed products that are applicable to all product categories. In the PEMC context, all rules of origin are to be found exclusively in the HS-based specific list laid down there. Indeed, Article 5 of Appendix I does not give any clue about the rules of origin applicable. The reader has to refer to the Annexes 1 (“Introductory Notes”) and 2 (“List Rules”) to find the applicable rules of origin.

The PEMC list rules contain several different rules of origin depending on the classification of the product concerned. They are also called “product specific rules” (PSR). As a global trend, a growing number of free trade agreements feature detailed

product specific rules, which will then overwrite the general rules. Fortunately, as said, the European layout avoids such confusion, as there is no general rule but only list rules.

The European Rules of Origin (PEMC and Jordan Compact) define exactly, which kind of transformation must occur to the imported material so that the exported product can be considered as originating in the country of production. A substantial transformation is normally expressed or defined by one, or a combination of, the following methodologies:

- a required change in tariff classification to the imported material;
- a required degree of value that must be added to the imported material in relation to the finished product or a specific maximum percentage of third country materials allowed in relation to the ex-works price of the product; or
- the imported material must undergo a specifically listed operation or a particular form of manufacturing (processing rule).
- A combination of above criteria.
- Sometimes, rules of origin also define some weight or value percentage that third-country input materials must not exceed.

**NOTE:** All operations and production processes must go beyond a minimal operation, if not the claimed transformation does not confer Jordanian origin.

### Examples of list-rule approach:

Harmonized System heading	Description of product	Qualifying operation (Working or processing, carried out on non-originating materials, which confers originating status)	
		(3)	(4)
ex Chapter 3	Fish and crustaceans, molluscs, and other aquatic invertebrates, except for:	All fish and crustaceans, molluscs and other aquatic invertebrates are wholly obtained	
0304 [.....]	Fish fillets and other fish meat (whether or not minced), fresh, chilled or frozen	Manufacture in which all the materials of Chapter 3 used are wholly obtained	
ex Chapter 28 [.....]	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes; except for:	Manufacture from materials of any heading, except that of the product. However, materials of the same heading as the product may be used, provided that their total value does not exceed 20 % of the ex-works price of the product	Manufacture in which the value of all the materials used does not exceed 40 % of the ex-works price of the product
Ex Chapter 64	Footwear, gaiters, and the like; parts of such articles; except for:	Manufacture from materials of any heading, except from assemblies of uppers affixed to inner soles or to other sole components of heading 6406	
6406	Parts of footwear (including uppers whether or not attached to soles other than outer soles); removable in-soles, heel cushions and similar articles; gaiters, leggings and similar articles, and parts thereof	Manufacture from materials of any heading, except that of the product	

In the structure of the list rule approach, Column (1) refers to the HS Number (Chapter or Heading level), while Column (2) describes the products according to the HS, or according to origin needs. Origin needs usually are flagged with “ex” in front of the numbering. Thus, careful reading is appropriate always. An “ex” in front of a 4-digit HS number usually indicates that only the product as described in the second column is targeted, but not the rest of the heading.

Column (3) and (4) refer to the rules of origin themselves, applicable to third country materials. Column (4) remains usually empty, but in some chapters of the HS it will contain slightly different rules of origin, which are an alternative to Column (3). Producers or exporters might choose which rule they want to apply.

to “Chapter” means the first 2-digit HS numbers, “heading” in the rules of origin refers to the 4-digit HS heading and “Subheading” refers to a 6-digit HS code. The HS has up to 99 Chapters, over 1200 headings, as well as about 5500 subheadings and is mandatory for Members (i.e., Jordan) to apply. The number of Chapters, headings and sub-headings is not fix, as the HS undergoes periodic review by the dedicated HS-Committee at the WCO, normally at a 5-years rhythm.

### 3.5 Change in HS Classification (Tariff Shift Rule)

**Note:** The International Convention on the Harmonized Commodity Description and Coding System, generally referred to as the “Harmonized System” or simply “HS”, is a multi-purpose internationally applied nomenclature related to the classification of goods in trade and developed by the World Customs Organization (WCO). In the context of the PEMC, the use of the HS classification is mandatory to find and apply the product specific rules of origin. The reference

Conveniently, the Harmonized System follows in a certain way the logical production steps and technological evolution of materials and products through its highly evolved Chapter and heading structures.

An HS-based change in classification rule would require the third-country material to be classified in another tariff heading at the moment of importation, compared to the tariff heading of the manufactured good, incorporating that material, when exported. Usually, such rules are called “**Tariff shift rules**”. On the positive side, the tariff shift rule is objectively based on the HS and allows both exporters as well as competent authorities to document and verify if the finished product originates in the country of exportation. All what is required is that the imported material undergoes the change in classification. Additionally, the classification of the imported material is already a matter of import records (import declaration). All these features make the tariff shift rule easily ascertainable and verifiable.

One of the disadvantages of the tariff shift rule is that the HS

follows a similar logic but was not designed for rules of origin purposes. The HS puts other criteria in place to create headings and sub-headings, thus similar operations on a material might not have the same classification effect. In other cases, relatively simple operations can trigger a change of heading. Therefore, for rules of origin, the application of exceptions or additional rules is often needed, such as value added and/ or listed operations, which complement the tariff shift rule. In some HS chapters, the product and its parts are sometimes classified in the same heading, while sometimes they are found in different headings. Therefore, rules of origin cannot just go straight with the same rule across the HS. Applying the “tariff shift” rule would lead to inconsistent results, sometimes conferring origin to an assembly operation (when product and parts are classified in different headings), and sometimes not (when both are classified in the same heading).

Another difficulty associated with the tariff shift rule of origin is that classification under the HS can be a complicated affair. Accurate tariff classification depends on a sophisticated understanding of the HS and detailed product information (which can be hard to secure). The result is a considerable degree of classification inconsistency within and between customs administrations. It can also be that classification disputes end up in courts or ultimately, at the World Customs Organisation specialised HS-Committee for decision. Such processes might take several months or years to be solved, meaning also that the origin of the goods is not solved if the cases are pending.

**Examples of a tariff classification rule:**

- “Manufacture from materials of any chapter, except that of the product”;
- “Manufacture from materials of any heading, except that of the product”;
- “Manufacture from materials of any heading”;
- “Manufacture from materials of any heading, except that of the product and of heading 8522”;
- “Manufacture from materials of any sub-heading, except that of the product”.

As these examples show, reading the rule is important, it requires sometimes the imported material to change classification but at chapter, heading, or sub-heading level.

**Example: Production of leather bags**

A start-up enterprise in Ma’an decides to aim at producing high-quality leather articles, above all bags, belts, and wallets. Due to their special needs, they find a tannery in Saudi-Arabia, which produces leather hides upon order in any desired colour. Fouzan, the owner, would like to ascertain that the leather articles produced in Jordan are originating. He has ambitious plans to enter the EU-market with his products.

First, he will have to identify his product, which is given, let us take the example of belts, made of leather. The HS classifies leather belts, hand-made, in HS 4203.30. Upon consultation, the EU applies still a 5% ad-valorem duty on third-country

imports, while Jordanian products would have zero duties. Fouzan thus decides that it is worthwhile to try to apply for Jordanian origin. As the leather is imported, Fouzan’s products cannot be wholly obtained, he has thus to apply the list rules. Knowing the HS number, he will scroll through the list and find the following rule:

Harmonized System heading	Description of product	Qualifying operation (Working or processing, carried out on non-originating materials, which confers originating status)	
		(3)	(4)
(1)	(2)	(3)	(4)
Chapter 42	Articles of leather; saddlery and harness; travel goods, handbags, and similar containers; articles of animal gut (other than silkworm gut)	Manufacture from materials of any heading, except that of the product	

Fouzan will see that Chapter 42 as a whole has just one rule of origin, which is a change of tariff heading. To apply this rule, he has not only to know the tariff heading of his product, but he has to check the import papers for his third-country materials he imported from Saudi-Arabia. He will notice that his parchment treated leather is classified in HS 4113. As the rule of origin mentions “heading” he does not need more tariff details. The conclusion of his assessment is that the imported leather clearly satisfied the tariff-shift rule, passing from 4113 to 4203 through the manufacturing of leather belts.

Origin determination however does not stop here. To complete the overview, Fouzan is also well advised to check upon Chapter 5 hereafter.

### 3.6 Value Criteria – Value-Added in the Last Country of Production

#### 3.6.1 Introduction

Eventually, the value-added criterion is the most used criteria by business operators and producers, as it is the closest related in its application to an accounting exercise. A value-added criterion is also linked to their main issue of cost of production and price determination of the final goods. At the same time, “value-added rule” is also the most unpredictable criterion, as the value added is yes, the most business-friendly rule but also the rule, competent authorities can verify the least.

Companies buy and sell components as well as their products, and sometimes at quite different prices. Thus, the immediate risk that authorities see, is that companies might “play” around

with values to squeeze into the percentage requested by rules of origin. However, the biggest advantage remains, value-added rules are market driven and easy to understand for companies.



Value-added rules could have issues with volatility of input prices, or currency fluctuations, and are subject to pricing policies of the company or owner. In general terms, the PEMC rules of origin have no rule to consider currency and price fluctuation over a certain period. As origin must be determined at each shipment, when requesting a proof of origin, the value-added rule becomes as well complicated as it has to be verified at each time.

#### Transitional PEMC ROO:

At the contrary of the PEMC, the future alternative protocol features in Art. 4 new rules allowing for a calculation of values on an average basis, usually to be applied throughout a fiscal year. This calculation allows producers and exporters to calculate with average input values and selling prices. This is very customer friendly and gives a more predictable origin determination. Under special circumstances, exporters might opt to change the basis for such a calculation already after three months.

Another solution is applied by some companies that go a relatively costly approach and integrate origin determination software into their systems. In this way, at each shipment, the system will calculate based on the selling prices, the value-added to the products and determine the correct origin accordingly.

In the PEMC, value added is defined in the percentage of the maximum content of third-country materials allowed. Hence, the operator needs a bit to reverse the calculation between originating and non-originating materials used and ex-works price of the final product. Usually, the rule reads like:

- PEMC: “Manufacture in which the value of all the [third-country] materials used does not exceed 40 % of the ex-works price of the product” (e.g., in the Machinery sector), or even 30% of the ex-works price of the product;
- EU-Jordan Compact: “Manufacture in which the value of all the [third-country] materials used does not exceed 70 % of the ex-works price of the product”. The difference is striking above all in Machinery chapters (84 and 85) where the PEMC rule of origin is very restrictive.
- Transitional Rules: “Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product” (as well in Machinery Chapters 84 and 85). This shows that the future Transitional Rules on rules of origin is situated in the middle-line, neither restrictive, neither too liberal.

#### 3.6.2 Calculation of the value added

Through its definition, the value-added rule of the PEMC is a so-called “**indirect cost calculation**”, it concentrates on the final price of the product and tests the third-country content on it. The value-added in Jordan, meaning the originating part is not directly addressed in this rule, it is just the result of the equation.

In other origin systems, just for comparison, it is also possible that the value-added rule requests the producer to effectively add-up every single local cost, from local materials used to profit and overhead costs; this is above all true under the US-Canada-Mexico Agreement (former NAFTA). This method is also called “**direct cost calculation**”.

Usually, materials sourced externally are valued at their buying price. Imported materials are accounted for at their customs value (or transaction value) at the time of importation. For locally sourced products, it is the price paid according to the invoice.

**NOTE:** Buying materials from a local supplier does not make them automatically Jordanian origin. Buying and selling without alteration will not change the origin of the products. In all cases it is important that the producer secures all relevant documents when importing or buying materials, not only about the price but also about the origin of the materials.

For selling products, PEMC Rules of origin focus on the ex-works price of the product, this as well according to the well-known INCOTERMS. The calculation stops there. After the goods have left the factory, no additional costs can be considered as originating part. Thus, if a Jordanian manufacturer will send his product, made in Jerash, all the road down to Aqaba, and load it on a container then on a ship, this is no longer considered in the calculation. If the export invoice contains a global price including for instance insurance and shipping costs, those costs must be ignored when calculating the ex-works price of a product. Upon application, the competent authority might also ask for more details of the calculation.

Also, in this case, the limit must not be “ex-works price”. In other origin systems, it could be also “ex-factory” (more restrictive as the case in COMESA Trade Agreement) or for instance FOB (Free on Board – more liberal), which is the chosen approach in the ASEAN Agreement on Trade in Goods (ATIGA).

As example, the list rule for the machinery chapters reads usually as this (PEM Convention):

Harmonized System heading	Description of product	Qualifying operation (Working or processing, carried out on non-originating materials, which confers originating status)	
		(3)	(4)
Ex Chapter 85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles; except for:	Manufacture: - from materials of any heading, except that of the product, and - in which the value of all the materials used does not exceed 40 % of the ex-works price of the product	Manufacture in which the value of all the materials used does not exceed 30 % of the ex-works price of the product
8501	Electric motors and generators (excluding generating sets)	Manufacture in which: - the value of all the materials used does not exceed 40 % of the ex-works price of the product, and - within the above limit, the value of all the materials of heading 8503 used does not exceed 10 % of the ex-works price of the product	Manufacture in which the value of all the materials used does not exceed 30 % of the ex-works price of the product

The reader of the rules, for instance a producer of electric motors might notice the complexity and restrictiveness of the rules. The rule for Chapter 85 has on one side the tariff shift rule but adds with the word “and” the second condition, which is a value-added rule to the equation. Thus, third-country materials added cannot contribute more than 40%. The producer will have to see if he can use the Chapter rule. He will notice the “Ex” in front of the “Chapter 85”, so he must be advised to check further, and he will see that Heading 8501 is mentioned. This means, this heading has a particular rule of origin, which is overwriting the Chapter rule.

For electric engines and generators, the specific rule of origin for heading 8501 looks similar to the Chapter rule but features an additional restriction targeting the use of materials of heading 8503. As the list rules do not specify what HS 8503 is, the producer or exporter will have to check the customs tariff. There, he will see that heading 8503 covers parts suitable for headings 8501 or 8502 mainly. The producer has therefore not only to define the correct value of all his non-originating inputs, but also the tariff classification. This rule is forcing the producer to produce not only the finished engine, but also to produce partially his own originating parts. Alternatively, there is also a pure value-added rule, limiting third-country inputs to 30%.

It is important to note that these complex and restrictive rules of origin of the PEMC will be complemented with the entry into force of the **Transitional Rules**. As mentioned earlier, the transitional rule will be a **50% value-added rule** for assembly operations.

For Jordanian producers, if the 50% is still a high percentage to reach, they have the option to apply **EU-Jordan Compact**.

Therein, the value-added in Jordan requested stays at **only 30%**. In both cases, the tariff shift rule will exclude the assembly of parts to confer origin through the change in tariff heading alone. The configuration of PEMC Rules of origin in machinery chapters always require for assembly operations the value-added test to be performed. Another option is of course, if input materials are available at reasonable cost, to apply cumulation with inputs from other PEMC Members.

### 3.7 Processing Rules

Processing rules of origin are straight forward, requesting specific operations or processes to happen. For instance, in the textiles’ chapters, the PEMC was adapted accordingly wherever specific operations were required. The EU no longer prescribes the materials to use, but the processing required, i.e., stating “Weaving or knitting accompanied by making-up (including cutting)”.

The rules can go quite technical and require for instance knowledge of the textiles industry. Rules might require for instance “Spinning of natural and/or man-made staple fibres or extrusion of man-made filament yarn, in each case accompanied by knitting (knitted to shape products)”. The formulation wants to avoid the use of HS-based rules, as textiles components are found in many chapters depending on the material (silk, wool, man-made, etc).

#### Processing rules can have great advantages:

- They directly prescribe a substantial transformation. Using technical terminology, rules of origin that prescribe certain operations are easier to understand, thus a garment producer will know exactly what “weaving” and “making-up” involves conferring originating status.





- They automatically avoid the pitfall of other general rules that might hinder granting preferential origin above all related to minimal operations. Thus, a producer that follows a processing rule, has a direct origin, which automatically also goes beyond a minimal operation.

PEMC Rules of origin also contain processing criteria, for instance for HS Chapters 15 (Vegetable oils) and 27 (Crude oil, gasoline), where several physical operations are origin conferring, i.e., refining, fractioning, or cracking. Especially for Chapter 27, the rules of origin are contained in Annex 1 to Appendix I.

**The Transitional Rules** on rules of origin will introduce in Annex 1 to Appendix I additional processing rules in the chemical sector (HS Chapters 28 – 38). The origin conferring concepts will be:

- Chemical reaction rule
- Deliberate mixture of chemicals
- Deliberate change in particle size
- Purification of chemical substances
- Standardisation of materials (i.e., fine-tuning of dyes and colours to perform the same intensity across several dyeing or printing operations)
- Isomer separation

For industries in this sector, such rules will be easier to apply, as the chemical engineers can apply those rules of origin corresponding to their specialty and knowledge, thus directly confirm the manufacturing process when applying for Jordanian origin.

Some other processing rule examples from the PEMC:

- For yarn of wool: “**Spinning** of natural fibres or **extrusion** of man-made fibres accompanied by spinning.”
- Rule for **woven fabrics** of man-made staple fibres:

“**Spinning** of natural and/or man-made staple fibres or **extrusion** of man-made filament yarn, in each case accompanied by weaving

Or

**Weaving** accompanied by dyeing or by coating

Or

**Yarn dyeing** accompanied by weaving

Or

**Printing** accompanied by at least two preparatory or finishing operations (such as scouring, bleaching, mercerising, heat setting, raising, calendering, shrink resistance processing, permanent finishing, decatizing, impregnating, mending, and burling), provided that the value of the unprinted fabric used does not exceed 47,5 % of the ex-works price of the product.”

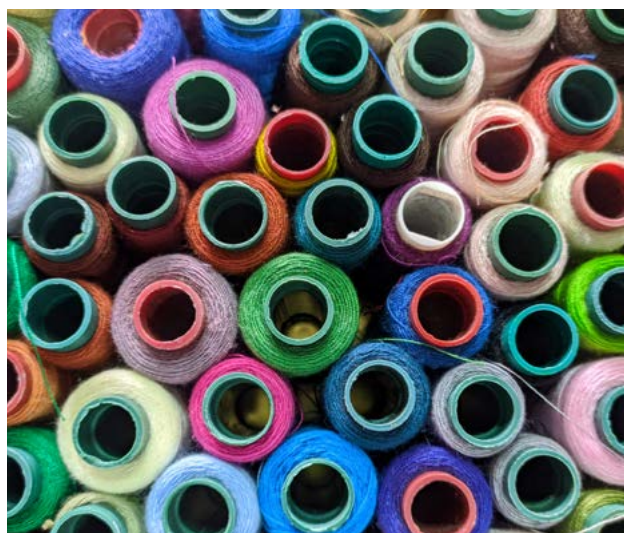
In Textiles and Garment sector, PEMC rules of origin usually require **two manufacturing steps**. The basic steps of production are:

#### Fibre Yarn Fabric Garment

In between, the rules of origin also recognise certain processing like special techniques to make yarn, dyeing of yarn, printing of fabric or embroidery, usually combined with at least one major step, from Fibre to Yarn, Yarn to Fabric, or from Fabric to Garment. Some rules are restricted by an additional value-added threshold. Through this multitude of options, rules of origin in textiles sector are relatively complex.

The **EU-Jordan Compact Agreement** has obtained a considerable simplification of the rules in the garment sector. It allows for a one-step manufacturing to produce garments. The EU-Jordan Compact retains its full validity as in the textiles sector, the future Transitional Rules does not bring substantial relief.

It has also to be stressed that the Introductory Notes to the List Rules contain specific tolerances for the textile sector and allow for the use of certain inputs (above all in yarn production). The following list **combines PEM Convention and Jordan COMPACT** to visualise the great differences:



Harmonized System heading	Description of product	Qualifying operation (Working or processing, carried out on non-originating materials, which confers originating status)	
		(3)	(4)
Chapter 61	Articles of apparel and clothing accessories, knitted or crocheted: - Obtained by sewing together or otherwise assembling, two or more pieces of knitted or crocheted fabric which have been either cut to form or obtained directly to form  - Other	JORDAN COMPACT:  Manufacture from fabric  Spinning of natural and/ or man-made staple fibres or extrusion of man-made filament yarn, in each case accompanied by knitting (knitted to shape products) or  Dyeing of yarn of natural fibres accompanied by knitting (knitted to shape products)	PEM Convention:  Manufacture from yarn  Manufacture from: - natural fibres, - man-made staple fibres, not carded or combed or otherwise processed for spinning, or - chemical materials or textile pulp

### 3.8 Combination and Input Limitations of Rules of Origin

Limitations to change in tariff or processing rules are also common, i.e., linking the processing rule with a value-added rule. Sometimes, rules of origin also define other limitation on the third country inputs. Thus, the change in tariff heading or a processing operation alone is not sufficient to confer origin, other limitations are put into place to make sure, that essential components of the product, i.e., fish, sugar, wheat, fabric, or yarn are originating or processed further. This then forces producers to use more local inputs or perform more operations.

As enumerated already, prime example of a limitation would be for instance the rule for certain textile fabrics in the PEMC Rules of origin, which reads:

“Printing accompanied by at least two preparatory or finishing operations (such as scouring, bleaching, mercerising, heat setting, raising, calendering, shrink resistance processing, permanent finishing, decatising, impregnating, mending, and burling), provided that the value of the unprinted fabric used does not exceed 47,5 % of the ex-works price of the product.”

In this rule, printing is the main processing rule, combined with two additional operations, which have to be performed in Jordan to confer origin. But this is not enough, the rule combines an additional restriction, referring to the unprinted, third-country fabric used. The imported fabric has to be less than 47.5% of the value of the final Jordanian product, meaning in other words the printing and finishing operations have to achieve 52.5% of added value in Jordan.

Another example can be found in the list rules for certain headings of Chapter 19. The specific rule of origin directly limits the use of third-country materials from Chapter 11. Thus, if a sweets producer in Jordan would like to export his pastries, he needs to check the origin of his main inputs, the wheat flour as this material is indeed classified under HS 1103. Making pastries out of imported flour would not confer origin. The only option

would be to obtain a manufacturing declaration from the mill that they imported the wheat itself, classified in Chapter 10, and then milled the wheat to obtain flour in Jordan. Thus, the imported material from Chapter 10, milled in Jordan and used in the production of pastry would qualify as originating.

Harmonized System heading	Description of product	Qualifying operation (Working or processing, carried out on non-originating materials, which confers originating status)	
		(3)	(4)
1905	Bread, pastry, cakes, biscuits, and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products	Manufacture from materials of any heading, except those of Chapter 11	

Another example of restriction can be found in rules of origin of Chapter 17. The chapter rule is simply a tariff-shift rule, but for some specific headings or products, the rule gets more restrictive. This is true for cane or beet sugar of heading ex1701 (the “ex” signalling that there are other sugars made from other inputs in the same heading). For HS ex1701, the rule of origin reads as follows: “Manufacture in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product”. In other words, only 30% third-country content is allowed in the production of sugar.

In agricultural chapters it is also common, that the list rules specify which input is the most substantial and define that certain inputs must be wholly obtained. This is the case for instance for products of Chapter 16, if they contain fish of Chapter 3. Although they are considered preparations by the HS. The rule of origin in Chapter 16 specifically requests: “[...] in which all the materials of Chapter 3 used are wholly obtained”.

**NOTE:** If the product obtained contains more than one input material, all non-originating materials used must fulfil the conditions laid down for the product concerned. Thus, all non-originating materials should undergo a change in tariff classification, or meet a processing rule, or a value-added rule.

The future Transitional Rules on Rules of origin will in principle not modify the restrictive layout of rules of origin in agricultural chapters. The EU Jordan-Compact is no relief neither as it does not include agricultural products.





4

## Cumulation of Origin and other “Second Chances” to Claim Jordanian Origin



**NOTE:** If a product is wholly obtained in Jordan, exporters can skip this chapter. As well, if a product qualifies as originating in application of the rules of origin under the previous Chapter, as well, producers do not need to apply cumulation or a tolerance rule and can skip this chapter as well. Once a product achieves originating status, it cannot fail it again if not further processed or mixed again with third-country origin inputs.

## 4.1 Cumulation and Absorption Principle (PEMC; Appendix I, Art. 3) (TR, Appendix A, Art. 7)

The PEMC and the earlier bilateral Agreements' rules of origin all suffered a common problem, the rules of origin were and still are restrictive and – above all for operators in smaller economies – hard to meet. Producers in Jordan are no exception. Preferential rules of origin are exclusively applicable in the framework of the concerned agreements.

To soften the restrictiveness, one of the solutions given by the PEMC to soften such impact is called “cumulation”, or “accumulation”. This is a second-best option, after the ordinary application of rules of origin fail. It is only a second-best choice because applying cumulation is more cumbersome. Especially, producers should build up origin awareness ahead of time, as originating materials needed from other PEMC members for the production in Jordan cannot be sourced once the product is finished, cumulation has to be checked before producing and buying input materials.

PEMC rules of origin offer two options to Jordanian producers and exporters, which are bilateral and diagonal cumulation. Some countries of the Mediterranean region further profit from the so-called full cumulation. In a nearer future, the EU would like to implement alternative rules of origin with Jordan, that would allow for full cumulation as well. Thus, it makes sense to explain all three options.

If inputs from abroad are used, some operators and Governments might question, if an imported material is 100% originating in that country, or if the third-country inputs must be again subdivided into their respective components. This would make application of rules of origin even more complex. The PEMC is silent on this, however, the formulation of the rules and the longstanding understanding is, that preferential origin is covering the whole product by 100% once it qualifies as originating!

**Note:** If a product qualifies for origin by meeting the rule of origin, the product will become 100% originating, so-called “absorption principle”. Absorption, as third-country components get assimilated. On the other hand, if the rules of origin are not met, the product would be 100% non-originating and any material added from Jordan would as well lose its own origin. One exception to this principle is the application of “full cumulation”.

### 4.1.1 Bilateral Cumulation

This form of cumulation allows the use of materials from each other partner of a free trade agreement. In the case of Jordan and the EU, the Jordanian producer can import materials from the EU and, to apply rules of origin, account them in his production sheet as Jordanian inputs. The reasoning is that the EU will not levy duties on its own materials if they are used abroad in the context of an agreement.

Bilateral cumulation is often used in Switzerland for instance, i.e., in the textiles or machinery industry, as well as in the steel sector. For producers in Switzerland, it would be exceedingly difficult meeting the rules of origin of the PEMC, as the industrial basis is on high value-added production rather than producing intermediate goods like iron ingots/steel plates or mainstream yarns or fabrics (while specialised production certainly exists). However, rules of origin exactly demand raw production capacities through limiting the inputs to produce for instance rolled steel or they require hot rolling, which would require a steel mill. Bilateral cumulation means also that the materials used go back to the same partner country, i.e., the EU.

#### Example:

Steel production is still sensitive in the PEMC region; thus, rules of origin stay relatively restrictive and require substantial work on imported raw materials to acquire originating status. In general, steel mills will extract iron from extraction material (iron ore) and produce heavy, rough ingots. From those ingots, a lot of products can be made of steel, mostly flat rolled for several uses.

The rules of origin for flat rolled products look like this:

HS Headings 7208 to 7216: Flat-rolled products, bars and rods, angles, shapes, and sections of iron or non-alloy steel  
“Manufacture from ingots or other primary forms of heading 7206”

Thus, a producer of flat rolled products is mandated to use ingots to produce his flat-rolled products. The rule of origin, by virtue of HS-classification, requires basically that ingots be heated up in a furnace and will be hot-rolled into shape. This requires producers to have costly furnaces and heavy-duty production processes. Producers in Switzerland however have no option to install furnaces. It would be too expensive, and energy would cost too much to hot-roll steel ingots there. Under normal circumstances, Swiss producers of precision flat-rolled products import already roughly flat-rolled sheets from Italy. They are further cold rolled from the iron sheets already classified in HS 7308 to 7216, into specific products. The finished products usually are exported to the industrial complexes in Germany, in need of high-quality and precision steel.

The problem? Cold-rolling alone does not confer origin, as Swiss producers would be required to hot-roll their products (thus, the imported input should be classified in HS 7306 or lower). Is all lost or the pertinent question arises, what saves the Swiss origin? Bilateral cumulation is the solution

to the restrictive rules of origin. The Swiss producers might use flat-rolled steel from Italy (originating there) in their own production, and through bilateral cumulation, account the Italian steel as their own. As cold-rolling is an involving physical process, it goes beyond a minimal operation and confers Swiss origin to the flat-rolled products, subsequently exported to Germany, but only by applying bilateral cumulation.

Bilateral cumulation is also favoured by geographical proximity of trade partners, as the greater the distance, the higher the logistics challenges and costs. In the case of Jordan, it is improbable that it is economically viable to import steel from Italy, cold roll it in Jordan and re-export it to Germany. High transportation costs could only be offset by high-value production in Jordan, favouring other production patterns i.e., hand-made high-end wedding gowns or suits for a wedding shop in Paris, made in Jordan with Italian fabrics.

#### 4.1.2 Diagonal Cumulation

The EU (still at 12 then 15 Members) in the '90s greatly enlarged the network of bilateral agreements, above all with the Eastern European countries (Poland, Czech and Slovak Republics, Hungary, etc.) – former CEFTA countries.

The EFTA states as well concluded each an FTAs with the EU, and the EFTA as well negotiated similar agreements with the CEFTA countries. Thus, both the EU as well as the EFTA had agreements with the same partner countries, and CEFTA countries as well formed a common zone. During those times, there were about 25 agreements with distinct, separate sets of rules of origin. The biggest problem, the rules of origin were, a well-known fact, quite restrictive in each Agreement and there was no connection among those agreements. Industries complained not only about restrictive rules of origin as such, but also that direct transport rules were too restrictive, which made it impossible to redistribute the originating products among CEFTA countries, the EFTA, and the EU.

Traders and producers could not take advantage of more than one FTA, goods could only be shipped among each party bilaterally, the same was true if bilateral cumulation was applied. The products would most certainly disqualify to meet any other agreements' rule of origin. Thus, the agreements were there, but really limited in their use.

A genius idea was born, called "diagonal cumulation". In 1996, diagonal cumulation was introduced in the Pan-European origin protocols. Diagonal cumulation enabled the use of materials (and even products) from any of the partner countries, thus creating a sort of "single origin-market". It also created an exception to the direct transport rule, allowing originating goods from any of those partner countries to be shipped to another partner.

The EU and the EFTA also expanded their network towards the Mediterranean countries. Again, the EU and the EFTA were confronted with a vast and growing network of bilateral free trade agreements between the EU, EFTA States, Faroe Islands, Turkey, and Mediterranean countries participating in the Barcelona process. Nowadays, the EU features more than 60 free

trade agreements in the European and Mediterranean region, the same can be said about the EFTA countries. **With or without PEMC, the basic concept and solution behind all trade relations is again "diagonal cumulation", linking all agreements.** There is however a word of caution, to apply cumulation, a free trade agreement linkage must exist, also called "variable geometry". Unfortunately, the PEMC-wide diagonal cumulation is not always possible, as some agreements are missing.

While bilateral cumulation would be harder to practice for Jordan, in relation with the EU or with EFTA countries as well because the physical distance, diagonal cumulation gives more options, as Jordanian producers – if needed to meet the respective rules of origin criteria – can source inputs from other, regional free trade partners, i.e., from Egypt, Lebanon, or Tunisia. Diagonal cumulation enables the product to qualify under the PEMC as originating in Jordan and grants preferential status when exported towards Europe. Thus, the long-distance factor would apply only once instead of twice.

Because of distance and administrative burden, cumulation applies mostly or in proximity (Italy-Switzerland-Germany for instance) or where rules of origin are stringent as well as where import tariffs are still high. This combination can be found above all in the textiles sector, therefore most examples for diagonal cumulation can be found in rules of origin for textiles.

#### Examples for checking, if diagonal cumulation could apply:

Garments (HS Chapter 62): It is well-known, rules of origin in the textiles sector are relatively restrictive (Exception: EU-Jordan COMPACT). Under normal PEMC rules of origin, textiles rules of origin usually require two production steps to acquire preferential origin. If a tailor in Jordan imports fabric from China, and produces a suit here in Jordan, he will not meet the PEMC rules of origin, indeed they will require that production starts from yarn or unprinted fabric (with further condition). Thus, to produce an originating suit, the tailor would need to source the fabric from the PEMC zone. He can cut-to-size the imported EU-fabric according to his design and sew the suit together. The suit would then qualify as originating under the PEMC Rules of origin (see hereafter, similar example under the point "tolerance rule").

#### 4.1.3 Full Cumulation

Full cumulation is, for now, only available in selected free trade agreements, i.e., the European Economic Area (EEA), and in the association agreements of the EU with Morocco, Algeria, and Tunisia. In the framework of the Stabilisation Pact with the Western Balkan partners (SAP: Serbia, Bosnia Herzegovina, Montenegro, Albania, Kosovo, and Northern Macedonia), the origin protocol as well foresees a special version of full cumulation.

The future Transitional Rules on Rules of Origin will introduce the concept of full cumulation, at the exception of textiles and garments. However, at the discretion of specific bilateral relations, countries can notify to accept full cumulation for textiles and garments as well. The specific formulation considers

the needs of the different Members to the PEM Convention. Full cumulation is the ultimate strive for economic integration among a free trade area. The logic is to achieve the **deepest possible economic integration of regional value-chains**.

But what is the difference between diagonal and full cumulation?

As said earlier, **diagonal cumulation** allows cumulation with **originating materials** or with **originating products** from the partner countries. Thus, materials must meet the rules of origin in the country of export, before cumulation can be applied in the next country of production of a good, and **before** goods can be exported under preferential arrangements.

**Full cumulation** on the other hand goes a step further and allows that materials and semi-finished products and especially a “**semi-finished originating status**” are shipped among trade partners. Thus, basically, non-originating materials or semi-finished goods are shipped to the next partner, however with a specific mention that this product contains some additional processing carried out there. With this notion, the producer in the next country would then ultimately achieve originating status for the products concerned. The example given hereafter will show the possibly good impact of full cumulation on a wider scale.

To facilitate the application of full cumulation, the Transitional Rules introduces a special origin declaration, which is called “**suppliers declaration**” (Appendix I, Art. 29). This declaration was used since many years inside the EU, to allow producers in one EU Member to confirm the origin to another EU Member. As the EU is a customs union, no certificates of origin could be issued inside the EU. The supplier’s declaration filled the gap and is now also foreseen in the future PEMC. The

supplier’s declaration will serve for the purpose of declaring the manufacturing and processing that occurred in the country of the semi-finished material or product and confirm the local origin content, allowing thus the producer in the next country to take them into account and to fulfil the rules of origin. This should help full-cumulation to be more operational as until now, it is limited by distance, and trust issues among operators. Furthermore, clearance of goods undergoing full cumulation in the next country is also administratively complicated for the competent authorities involved. Through the introduction of the suppliers’ declaration, those issues might be solved.

At the moment, some PEMC Members use full cumulation in the textiles sector, also in electronics and automotive sector.

**Example:**

One Member of the PEMC, which has already full cumulation in his bilateral agreements, has an industrial sector cluster specialised in electronic components, and they also manufacture electronic boards intended to be fitted into television and monitor sets in the EU. They import electronic circuits and components from the only source available worldwide, which is from the Far East. The assembly of the boards, to be fitted into television sets, roughly adds 30% of value to the finished electronic board, compared with the third- country inputs accounting still for up to 70% of value. Is this enough to confer origin? If not, how can they keep themselves in business with their EU-contractors? The rules of origin are stringent and read as follows:

Harmonised System heading	Description of product	Qualifying operation (Working or processing, carried out on non-originating materials, which confers originating status)	
		(3)	(4)
(1)	(2)	(3)	(4)
8529	Parts suitable for use solely or principally with the apparatus of headings 8525 to 8528:		
	- Suitable for use solely or principally with video recording or reproducing apparatus	Manufacture in which the value of all the materials used does not exceed 40 % of the ex-works price of the product	
	- Suitable for use solely or principally with monitors and projectors, not incorporating television reception apparatus, of a kind solely or principally used in an automatic data-processing system of heading 8471	Manufacture: - from materials of any heading, except that of the product, and -in which the value of all the materials used does not exceed 40 % of the ex-works price of the product	Manufacture in which the value of all the materials used does not exceed 30 % of the ex-works price of the product
	- Other	Manufacture in which: - the value of all the materials used does not exceed 40 % of the ex-works price of the product, and - the value of all the non-originating materials used does not exceed the value of all the originating materials used	Manufacture in which the value of all the materials used does not exceed 25 % of the ex-works price of the product



In brief, the assembly of an electronic circuit board from electronic components, chips and doped electronic board does not add enough value to confer origin. As explained, once origin is not achieved, if the circuit boards are shipped to the EU, they cannot claim origin and through the absorption principle, 100% of value of the electronics board would be accounted as third-country origin for the producer in the EU. However, the EU producer, as well facing stringent rules of origin, is imperatively demanding a certain originating input. Without this originating contribution, he would not achieve EU Origin for his television sets neither. For the producer in the EU, it is a tough decision, no origin equals no business with his suppliers.

There is no other alternative, no tolerance rule, to save the producers neither. But there is full cumulation! This example shows now that full cumulation might impact countries with low production capacities and low value-added. Industrial reality is, that the television producers, that want again to export their TV sets as originating, need from each component, in addition to the own assembly, an “originating contribution”. They do not need necessarily a totally originating component, but just an addition in value (or processing) to their own production.

Full cumulation allows now the PEMC Member’s producer to send not an originating product, but through full cumulation he sends his originating contribution, by stating that he assembled the mainboard of the TV set, and that he added 30% of value to it.

This statement, in future made out as a supplier’s declaration, will allow the producer in the EU to account those 30% of the board costs, to be accounting for the value-added. The TV sets can then meet EU origin and be exported in the PEMC as EU-origin.

The future Transitional Rules will lower the threshold for originating products, nevertheless, the full cumulation will be an attractive option in the case of Jordan, as it will allow for exploiting regional value-chains with less initial investment and thus, costs of production.

#### 4.1.4 “Residual Rule” in Case of Cumulation

Jordanian producers of a mixture of parts or materials might still be able to claim Jordanian origin in application of the PEMC. Indeed, Article 3, §3, of Appendix I to the PEMC, creates a sort of “residual rule”, to attribute origin in case, different originating materials have been put together, but where the operation in Jordan does not go beyond a minimal operation (i.e., simple dilution of different ingredients).

## 4.2 Tolerance Rule (PEMC; Appendix I, Art. 5, §2) (TR, Appendix A, Art. 5)

Another “second chance” to achieve still the originating status of a product in Jordan is the “tolerance rule”. As described earlier, the tariff-shift rule, based on the HS, is not perfect and sometimes producers cannot avoid using materials that are already classified in the same heading as the final product. As well, certain processing rules might be quite stringent and hard to fulfil.

The rule is self-explaining, it introduces a tolerance in applying the tariff-shift rule. The current PEMC rules of origin fix the tolerance at 10% of the ex-works-price of the product. The tolerance rule does not apply to value-added rules; thus, it

cannot modify the overall percentage of third-country materials allowed in a product. If a rule of origin allows 40% of non-originating materials, this limit cannot be raised. 40% is the maximum allowed, can be less but not more.

Note: The general tolerance rule does not apply to Chapters 50 – 63 of the HS, however. For the textiles sector, the introductory notes to the list rules contain separate tolerance levels, depending on the composition of the materials and products concerned. Usually, textiles sector tolerances range from only 4, 8 to 10%.

The future Transitional Rules will raise the tolerance to 15%. It will also change the method of calculation of the tolerance for most agricultural products of Chapters 2 and 4 to 24 (except fishery products of Chapter 16), focussing on a tolerance of 15% of weight, instead of value, compared to the total weight of the product. Annex I, Notes 6 and 7, to the Transitional Rules, concerning textiles products will contain as well raised tolerances for mixtures of textile materials, and as well based on weight percentages.

#### Example:

Textiles (same example as before): As said, a tailor in Jordan, to produce an originating suit, would need to source the fabric from the PEMC zone. He can then cut-to-size the fabric according to his design and sew the suit together. Usually, suits have also inner lining, which is often imported as well. Our tailor imports the inner lining from China, however, the value, compared to the total price of the manufacturing and originating fabric is only 5% of the total value of the product.

Note 6 reads:

“6.1. Where, in the list, reference is made to this Note, textile materials (with the exception of linings and interlinings), which do not satisfy the rule set out in the list in column 3 for the made-up product concerned, may be used, provided that they are classified in a heading other than that of the product and that their value does not exceed 8 % of the ex-works price of the product.” [...]

As the inner lining is imported from China, it would disqualify the whole suit from Jordanian origin, as inner lining cannot be cumulated (as from China) and does not comply with the PEMC rules of origin. But does tolerance rule help? Introductory Note 6 contains a tolerance of 8%, which might be the lifebelt for the tailor as his inner lining is just 5% of the total value of his suit. Unfortunately, the careful reader might notice the words “with the exception of linings and interlinings”. This means that this suit, using third-country materials from China cannot qualify as originating in Jordan. One advice to give would be to check the origin of all materials and related rules of origin a priori. Our tailor in this example will learn the lesson and source inner linings as well from a PEMC country.

The better option for our tailor, on the other hand, is to apply for qualifying as producer under the EU-Jordan COMPACT arrangement (see also Chapter 6 hereafter). This special provision introduced an alternative set of rules of origin, which requires only one-step manufacturing processes, thus CMP operation (Cut-Manufacture-Package) already can confer origin to the whole products of HS Chapter 62. Under EU-Jordan COMPACT, our tailor’s suit would qualify as Jordanian origin exporting to the EU.



5

## **Rules With Indirect Influence on Originating Status and Granting of Preferences**

## 5.1 Insufficient Working or Processing (Minimal Operations) (PEMC; Appendix I, Art. 6) (TR, Appendix A, Art. 6)

**Note:** For wholly obtained products in Jordan, there is no need to check for this rule, as an originating, wholly obtained product cannot lose origin as such anymore. However, this rule is essential to check for manufactured products that are integrating third-country inputs in application of the list rules.

Please note that this article applies as well to cumulation of origin. Cumulation of origin can only confer Jordanian origin if the production process in Jordan goes beyond a minimal operation.

Minimal operations cannot confer a new origin to an imported material, at the exception of the residual rule for cumulation. The rule on insufficient working or processing is exhaustively mentioning specific simple operations, that are usually carried out to preserve the products in good condition or to ameliorate the appearance.

**As insufficiently worked among others there are:**

- preserving operations to ensure that the products remain in good condition during transport and storage;
- breaking-up and assembly of packages;
- washing, cleaning; removal of dust, etc;
- ironing or pressing of textiles and textile articles;
- simple painting and polishing operations;
- husking and partial or total milling of rice; polishing and glazing of cereals and rice;
- operations to colour or flavour sugar or form sugar lumps; partial or total milling of crystal sugar;
- peeling, stoning, and shelling, of fruits, nuts, and vegetables;
- sharpening, simple grinding or simple cutting.

The above list is not exhaustive, Article 6 contains also more details. However, there is no easy solution to give for many processing or manufacturing options at the edge between substantial and minimal. Some literature refers to simple for “screwdriver operations” referring to the fact that the assembly of a cabinet is not really a substantial operation. Similarly, some consider the assembly of a car from all its components as such operations while modern technology might be beyond such a definition. Again, the word “simple” is questionable, if producers in Jordan for instance add one Jordanian part into the assembly or invest in expensive machinery, then it could be well possible that the assembly or screwdriver operation goes beyond a minimal operation.

In case of doubt, producers are well advised to check in advance with their competent authorities to check if their production would go beyond or not a minimal operation.

**Example:**

Let us focus again on Fouzan, our producer of leather articles in Ma’an. While the production of leather bags might not raise questions about minimal operations, eventually, the production of leather belts does. Fouzan could decide, that the imported leather is so nicely tanned and coloured, with desired grain structure, that he could just cut lengthwise the leather and sell as a belt.

Such operation could qualify as “simple cutting”. There are no special tools involved, and no specific cutting pattern. In such a case, the competent authority will not accept the claim of Jordanian origin, despite that the cutting into belts of leather hides would satisfy the tariff shift rule. Again, the minimal operation rule is strict, it will exclude conferring a new origin, even in the case of cumulation.

## 5.2 Principle of Territoriality (PEMC; Appendix I, Art. 11) (TR, Appendix A, Art. 13)

To meet rules of origin, all working or processing must be carried out inside Jordan without interruption. There might be circumstances, where some specific processing requires skills only available in another country. Thus, it happens that producers, during their production steps, will outsource one operation to a specialised company abroad. Usually, such operations are not allowed, as long as the product is not already originating before it is processed abroad. Article 11 is relatively strict, it however allows, exceptionally, some processing abroad if the value added there is not greater than 10% of the final value of the ex-works price of the final good. The value added abroad will be accounted for as third-country inputs, in case of value-added rules.

To define the territory of Jordan, international UN Treaties apply, including the UNCLOS (United Nations Convention on the Laws of the Sea).

**Example:**

“Jordan Pharma” produces a pharmaceutical substance. However, they lack the equipment to produce the pills’ capsule. Thus, the medicament gets exported in bulk into Saudi Arabia, where they get incapsulated. The tablets move back to Jordan for final control and packaging (blistering). The medicament in bulk is without doubt originating in Jordan. But what is with the capsules?

For “Jordan Pharma”, the capsules must be considered as non-originating when returning to Jordan, as Saud-Arabia is not part of the PEMC. The PEM however gives an option to consider small operations outside the PEM zone as tolerable, if the value of the operation abroad does not go beyond 10% of the ex-works price of the product.

Under the future Transitional rule, this tolerance does not change and stays at 10% of the ex-works price of the product.

## 5.3 Direct Transport

### 5.3.1 Direct Transport Under PEM Convention (PEMC; Appendix I, Art. 12)

Art. 12 PEM Direct transport is still a condition to fulfil under the PEMC. The rule itself is quite strict but contains some flexibility if the commercially justifiable route for shipping products is different from the so-called “direct” way. Obviously, European

Customs will probably question, if a Jordanian originating product would be shipped and come in transit through Russia. The Customs authorities usually would assume goods to be shipped through Aqaba and then pass the Suez Channel and reach Europe through the Mediterranean Sea.

The best way to prove that an unusual transshipment meets the condition of such rule is a so-called «Non-manipulation certificate» issued by the Customs authorities of the transiting country (This is a common form foreseen in the Kyoto Convention). The exporter has also to justify the uncommon transport route, just in case.

A great exception of direct transport rules is the PEMC Cumulation. Cumulation in the PEMC does not only allow to import and re-export materials for manufacturing, but it regulates the acceptance of finished originating goods from other parties, thus factually introducing «customs union» alike conditions of free movement of goods (as long as they are originating in one of the PEMC parties).

Overall, if customs of the importing country might assert that direct transport rule is not met, they might decline preferential treatment. Thus, direct transport is as important as meeting the rules of origin themselves and the relevant proof of origin.

### 5.3.2 Transport Rule Under Transitional Rules (TR, Appendix A, Art. 14)

The future Transitional Rules change radically with the strict direct consignment rule and will focus on “Non-alteration”, in other words also called “non-manipulation”.

The rule wants to make sure, as previously, that the products leaving Jordan are the same that will arrive in the country of destination and where preferential treatment will be claimed. Recognising global trade practices, the rule however recognises that consignments might be transported indirectly, and it even be **split up abroad**. In case of splitting up the consignment, the exporter in Jordan will have to apply for a new proof of origin, mentioning the new quantities and destination country.

Main condition is that storage of products or consignments and splitting of consignments take place under customs supervision in the third country(ies). In case of doubts about the identity of the products, the importing country might ask for more evidence, beyond the existing shipping and import documentation. This might be a confirmation from the customs authorities, also called “non-manipulation certificate”. This certificate is a form foreseen in the Revised Kyoto Convention and should be well known to all members of said Convention. Other evidence could be the contracts of sale or transport, or other evidence like serial number(s) on the products or packaging.

## 5.4 Exhibitions (PEMC; Appendix I, Art. 13) (TR, Appendix A, Art. 15)

As an exception to the principle of territoriality as well, products can be sold directly from an exhibition (under certain circumstances and documentary requirements).

It is possible that a Jordanian producer presents his innovative

product at a trade fair in Geneva, Switzerland. Usually, goods at official trade fairs are still assumed to be under customs control and not into free circulation there. This is the main reason that the PEMC Rules of origin allow for direct sale of that article for instance to a German customer. Exceptionally, the Jordanian producer can apply for the necessary proof of origin in Jordan while the product is already in Geneva. Hence, it is not necessary that the producer brings back to Jordan his product, to send it again out to Germany. Shipping costs would just be excessive.

## 5.5 Duty Drawback

### 5.5.1 The Restitution of Import Duties (PEMC; Appendix I, Art. 14 and 35)

Drawback is the restitution of import duties on materials imported, that get integrated into a production step in Jordan, and re-exported as product. Customs Law allows the exporter, as the whole product is again leaving Jordan, to claim back the duties paid upon importation of the materials used.

However, bilateral, or regional trade agreements often contain the absolute prohibition to concede drawback on products, for which preferential treatment is claimed. The PEMC is no exception to this. The EU, the EFTA Members, Turkey, and some other partners of the PEM Zone cannot grant drawback at all. Drawback is legally seen also as a sort of export subsidy, thus forbidden a priori.

Art. 14 of the PEMC contains some exceptions from this absolute statement, allowing some drawback under special conditions, but only for specific countries. This makes the legal text on duty drawback a rather complicated case.

Jordan for instance is applying duty drawback under the PEMC. The drawback can return all customs until a limit of 4% of the value of the imported materials of all industrial chapters, except textiles. In the textiles chapter, the limit stands at 8%, thus if Jordan customs collected 20% on a fabric imported from China, they can grant only a restitution of 12% (20 minus 8).

In the case of exports towards the EU, on the one hand, and Algeria, Egypt, Jordan, Morocco, Tunisia, and Palestine, on the other hand, drawback is allowed in purely bilateral trade, meaning if no diagonal cumulation is applied and the product is not re-exported from a country of importation to any of the other countries of the zone. Thus, if a Jordanian tailor uses fabric from Italy, to produce a suit, and subsequently sells the suit to a buyer in Germany, the tailor is entitled to claim the paid duties on the fabric used.

Products produced in a free zone, i.e., in Aqaba, undergo the Drawback test as well, thus, if a product is exported from such Special Economic Zone, third country materials used should pay at least once duties, in the meaning of Article 14.

Question arises sometimes if drawback can be granted even after issuance of a proof of origin. According to the Explanatory notes to the PEMC rules of origin, yes, it is possible, but only under certain conditions. The cases refer above all to the refusal to grant preferential treatment, thus the exporter might wish

to withdraw the claim for preferential treatment and instead obtain drawback on imported materials. Such procedure could eventually offset the loss of preferences.

### 5.5.2 Drawback Under Transitional Rules (TR, Appendix A, Art. 16)

A major shift and liberalisation will be introduced through the transitional rules. For most HS Chapters, drawback will be allowed. Due to concerns of some PEMC Members, drawback will still be prohibited for textiles and garments of HS chapters 50 to 63, which is also the main aim of the respective article.

But as well for textiles and garments, there is an option to grant the refund on customs duties in case of the declaration by the party to accept full cumulation.

## 5.6 Neutral Elements (PEMC; Appendix I, Art. 10) (TR Appendix A, Art. 11)

The rule makes sure, that the origin determination is focused on the main product. It states that the origin of the machinery used for the production, and other items, which are not intended to be integrated into the product, are not taken into consideration.

It is not totally disregarded, as in the case of value-added rule, such neutral elements might enter price calculations to calculate the ex-works price of the product.

#### Example:

the producer of cucumbers does not need to determine the origin of the water for irrigation purposes or of the fertiliser used during the growth of the plant. The rules of origin look only at the cucumber itself.

The use of a Chinese angle grinder does not interfere with the origin of a steel cabinet manufactured in Jordan, neither does for instance fuel or electricity used during manufacturing. However, if the manufacturer would use welding rods from China, this would account as a third-country component. Fact is that welding fluid will liquefy during welding, then solidify and integrate with the product. The same is true if third-country nuts and bolts are used, which are affixed to the cabinet.

## 5.7 Rules of Origin that Follow the Harmonised System (HS)

### 5.7.1 Unit of Qualification and Packaging (PEMC; Appendix I, Art. 7) (TR, Appendix A, Art. 9, §1 and 2)

Usually, it is not hard to identify the product and, as written, the unit of qualification just prescribes that each item is taken by itself for the purpose of determining the origin.

If an exporter has an invoice that covers 10 different products and if he applies for Jordanian origin for all of them, each single product must verifiably meet the rules of origin applicable. There

is no general origin for a whole shipment or container, origin is determined by the single item (however, independent of the quantity included).

However, sometimes the HS puts an assembly of parts together and sees them as one single item. In such a case, the exporter has as well to determine one single origin for the whole composition of sub-assemblies. As example, a car manufacturer decides to export a not-assembled vehicle in the form of individual parts that will be assembled into a finished vehicle in the respective country of import and sold there. If the producer ships such a “Completely Knocked Down” (CKD) unit, the HS prescribes that such a composition of parts is classified as a car, and not as parts. In such a case, the rules of origin must follow the HS and determine one single origin as well for the whole shipment.

Similarly, where, under General Interpretative Rule 5 of the Harmonised System, packaging is included with the product for classification purposes, it is also included for the purposes of determining origin.

### 5.7.2 Accessories, Spare Parts, and Tools (PEMC; Appendix I, Art. 8) (TR, Appendix A, Art. 9, §3)

Accessories, spare parts, and tools which are included in the calculation of the price of the equipment, machine, apparatus, or vehicle, are regarded as falling under the origin of the product itself. The rule follows the classification rule for accessories, spare parts and tools which are normally included with a specific product, i.e., a laser printer (one set of cartridges).

Example: vehicles usually carry spare parts in form of one spare wheel and a small toolbox and car jack. These three accessories are factually like a neutral element and ignored in the determination of origin (while they will go in the selling price however).

### 5.7.3 Composition of Sets (PEMC; Appendix I, Art. 9) (TR, Appendix A, Art. 10)

Only 15% of non-originating materials of the ex-works price are allowed in sets. The rule of origin in this case is necessary to follow the dispositions of the HS, General Rule 3.

If the set is not “a set” according to the HS, every single article must be taken individually. This applies for customs purposes as well as for origin determination. Thus, a loose collection of different articles is not a set, except if the HS determines otherwise.

#### Examples of sets:

- First aid kit for a car or motorcycle.
- Cosmetics set (set of different articles of same brand, perfume, shampoo, conditioner, lotion, soap, and special container).
- School supplies set (pens, sharpener, ruler, paper, eraser, notebook).

## 5.8 Accounting Segregation (PEMC; Appendix I, Art. 20) (TR, Appendix A, Art. 12)

Producers sometimes source identical inputs from different countries. It can well be that sometimes, those materials are originating, sometimes not. Let us assume now, the producer will stock all those identical materials i.e., polymers to produce plastic articles, in one container. Under normal circumstances, once the origin of a material cannot be determined at 100% security, the materials are deemed to be third country material. Thus, mixing up origin through mixing the materials is basically risky and could void the originating advantage of some inputs. To have a clean record, producers need to separate the inputs according to their origin.

Even the PEMC recognises that such separation of materials is expensive, and offers one solution, which is the accounting segregation. This means, once approved by the competent authority, that producers can physically mix up the identical materials in one single storage or container. The origin separation will happen in the accounting system. The originating and non-originating materials must be of the same kind and commercial quality as well as possess the same technical and physical characteristics.

Thus, the company will have to prove that they have an efficient management of stocks of materials used in manufacture. They have also to apply Good Accounting Principles (GAP), like FIFO (first-in-first-out) or FILO (First-in-last-out). Companies cannot switch the system during the accounting period (usually one calendar year) upon their own wish, they can do only after approval of the competent authority.

The rule wants to facilitate the stock management but at the same time avoid a sort of “origin shopping”, where companies would switch and swap upon their needs the inputs. The latter is forbidden.



**CUSTOMS**



6

## The EU – Jordan Compact Arrangement

## 6.1 The Great Opportunity for Jordanian Exporters From 2016

The previous chapters explained well the foundation and understanding of the European layout of Rules of Origin. As well, the examples given usually refer to the European Rules of Origin as restrictive and hard to meet, above all in textiles and garment but also in the machinery sector.

The Government of Jordan has often emphasized that the PEMC Rules of origin are not adequate for smaller countries, which have limited industrial basis and have a geographical disadvantage in trading with Europe.

The EU, but only the EU and not the other PEMC partners, agreed in 2016 to a new approach, under the umbrella of the overall commitment to support Jordan and to help alleviate the refugee crisis through offering job opportunities for both Jordanian and Syrian workforce.

The applicable Rules of origin were not something new, the EU took inspiration from their EU GSP System and transposed the liberal rules of origin for least-developed countries, into the EU-Jordan Agreement. Those rules of origin helped the least-developed countries to drastically raise their exports towards the EU. In the case of the EU-Jordan arrangement, the EU granted those rules only to 52 out of 97 HS Chapters.

The EU set up relatively strict conditions, under which Jordanian exporters might benefit from more liberal rules of origin. Main conditions were the granting of a high number of working permits to Syrian refugees working in Jordan, factories are required to employ no less than 15% of their work force from Syrians in the first two years from its application, and this rate must reach no less than 25% in the third year, and the physical limitation to specific industrial economic zones only. Jordanian exporters had to go through several administrative hurdles to claim preferential origin under the EU-Jordan COMPACT 2016 arrangement. Thus, overall, the decision remained unpopular.

## 6.2 The New EU-Jordan Compact Arrangement of December 2018

In 2018, the EU recognised the efforts by the Jordanian Government, agreed to liberalise the administrative requirements and enhance coverage of products. Thus, through a new Decision taken in December 2018, Jordanian producers and exporters can avail:

- Less administrative hurdles, as the EU lowered the conditions about fulfilment of the limit concerning Syrian working permits, thus exporters do not need to check back with Ministry of Labour anymore. It was agreed to adopt a flat rate of recruiting no less than 15% of Syrian labour within the production facility, across the overall duration of the scheme (until 31 December 2030) and until the overall target of Syrian employment is reached with the aim to ensure that Jordanian manufacturers can benefit fully from this scheme. Once Jordan achieves at least 60,000 legal and active Job opportunities for Syrian refugees, the coverage of this decision shall be extended to include all production in Jordan of products covered by this decision without the need to satisfy the company- specific condition of recruiting Syrian labour within the production facility.
- Expansion of the scheme on the whole territory of Jordan,

thus all producers and exporters can avail the benefits of liberal rules of origin (in the limits of the HS Chapters covered). As well in this case, the restriction to special development zones has been deleted.

- Extension of validity of the new scheme until 31 December 2030, thus creating a long-lasting incentive for exporters to profit from the special conditions.

**Note:** The EU-Jordan COMPACT Rules of origin are not substituting the PEMC but are an ALTERNATIVE. Thus, it is at the discretion of the producer or exporter, which set of rules of origin he wishes to use. As spelled out, the Jordan COMPACT is only valid for exports to the EU. As the rules of origin are not identical to the PEMC system, there is also NO DIAGONAL CUMULATION applicable. On the other side, rules of origin are so liberal that it is not worthwhile to try to cumulate in most cases.

As well, the future Transitional Rules of the PEMC, although more similar to Jordan Compact rules of origin, will not substitute this special arrangement neither.

## 6.3 Highlights of Liberal Rules of Origin

As a help, the rules of origin got relaxed in selected Chapters of the so-called "industrial chapters of the HS". Thus, agricultural products are fully excluded from Jordan COMPACT.

Importantly, rules of origin feature:

- Generally, for the 52 HS Chapters included, rules of origin have been relaxed, meaning they are more liberal compared to the PEMC, sometimes even much more liberal.
- **Alternative value-added rule** allows for most of the chapters up to 70% of third-country inputs, calculated based on the ex-works price of the product. Thus, Jordanian contribution through manufacturing must total just 30% or above from the ex-works price. It is worthwhile however to check the list rules for the exact rule of origin applicable. Again, not all HS Chapters are included in the Jordan COMPACT.
- **CMP (Cut, manufacture, packaging) operation in textiles and garments:** in general terms, partially one-step manufacturing allowed, thus garment producers, for instance for clothes of Chapter 61 or 62, can import fabric of any third-country origin and obtain originating Jordanian clothes. This rule alone revolutionised the manufacturing sector in Least Developed Countries like Bangladesh, Myanmar, or Cambodia, but also attracted a lot of investment in Ethiopia recently. **The rule is certainly one of the greatest opportunities for Jordanian producers and exporters as well.**

**Note:** Producers that want to avail this special opportunity, need to apply for an authorization number at the Ministry of Industry, Trade and Supply. If the producer meets all necessary conditions, he will be granted an authorization number. This number has then to figure in the respective proof of origin (see also Chapter 7 hereafter).

For more details about the EU-Jordan COMPACT arrangement, please also request the informative pamphlets from the Ministry of Industry, Trade and Supply or from your Chamber of Industry.





7

## **Administrative Rules and Requirements**

## 7.1 Obtaining a proof of Origin (PEMC; Appendix I, Art. 15ff) (TR, Appendix A, Art. 17ff)

If the producer is certain to have an originating product, he can apply for a certificate of origin, the so-called Movement Certificate EUR.1, or EUR-MED the case may be. The PEMC prescribes in detail the layout, colour, and format of the certificate of origin.

The certificate also contains the respective application form. The applicant is required to submit not only the application form but also the justification for the origin declared.

Only in respect to the EU, if a Jordanian exporter avails the EU-Jordan COMPACT scheme, the proof of origin shall contain the following statement in English: ‘Derogation-Annex II( a) of Protocol 3 – authorisation number [granted by the competent authorities of Jordan]’.

### 7.1.1 The Certificate of Origin or Movement Certificate EUR.1 (PEMC; Appendix I, Art. 16 and Annex IIIa) (TR, Appendix A, Art. 17)

Under normal circumstances, when the producer or exporter in Jordan claims and proves that he will export an originating product, he will apply for a movement certificate EUR.1. This means that origin is conferred because he exports a wholly obtained or sufficiently transformed product, meeting the rules of origin of the PEMC. Special conditions have to be flagged on the certificate itself, usually in Box 7 “Remarks”.

For the future transitional rules, the movement certificate EUR.1 should include the statement in English ‘TRANSITIONAL RULES’ in box 7. This statement has a huge influence as the rules of origin applicable will be different as well as the validity period of the movement certificate itself.

### 7.1.2 The Certificate of Origin EUR-MED (PEMC, Appendix I, Art. 16 and Annex IIIb)

The certificate of origin EUR-MED is needed if the producer or exporter invokes cumulation with materials from the PEM region. The other option is that the buyer requests for CO EUR-MED. The duplication to introduce two different sets of certificates of origin was necessary, as some countries of the PEMC have the privilege to apply different administrative rules under certain conditions, i.e., grant partial drawback. Further transshipment or use of materials in the Euro Mediterranean region as well depends on the use of the CO EUR-MED. Thus, it can happen that a German or Swiss exporter will have to use a CO EUR-MED in case the Jordanian importer will use the materials to produce a machine or if the importer will further sell the articles to a PEMC country. Thus, the buyer of the materials in Jordan, should have indeed this “origin awareness”, as he must request already the correct form when buying his inputs. Without specifying, Swiss or German exporters would tend to issue the CO EUR.1 or related invoice declaration.

For purpose of using the CO EUR-MED, the Jordanian exporter must indicate always “no cumulation applied” or “cumulation applied with ....” (and in the latter case, list of all countries involved).

**Achtung!** Vor dem Ausfüllen der Rückseite von Blatt 2 zwischen Blatt 1 + 2 ein zusätzliches Blatt einlegen, damit das Durchschreiben auf der Vorderseite von Blatt 2 vermieden wird. Formulärsatz nicht trennen!

WARENVERKEHRSBESCHEINIGUNG			
1. Ausführender/Exporteur (Name, vollständige Anschrift, Staat)		EUR. 1 Nr. AR 135381	
Vor dem Ausfüllen Anmerkungen auf der Rückseite beachten			
3. Empfänger (Name, vollständige Anschrift, Staat) (Ausfüllung freigestellt)		2. Bescheinigung für den Präferenzverkehr zwischen der und (Angabe der betreffenden Staaten, Staatsgruppen oder Gebiete)	
8. Angaben über die Beförderung (Ausfüllung freigestellt)		4. Staat, Staatsgruppe oder Gebiet, als dessen bzw. deren Ursprungswaren die Waren gelten	5. Bestimmungsstaat, -staatsgruppe oder -gebiet
7. Bemerkungen			
8. Laufende Nr.; Zeichen, Nummern, Anzahl und Art der Packstücke <sup>(*)</sup> ; Warenbezeichnung		9. Rohgewicht (kg) oder andere Maße (l, m <sup>3</sup> , usw.)	10. Rechnungen (Ausfüllung freigestellt)
11. SICHTVERZEICHEN DER ZOLLBEHÖRDE Die Richtigkeit der Eintragung wird bescheinigt. Ausführer: _____ Art/Muster: _____ Nr.: _____ vom: _____ Zollbehörde: _____ Ausstellungsland (Staat/Datend): Bundesrepublik Deutschland (Ort und Datum) (Unterschrift)		12. ERKLÄRUNG DES AUSFÜHRERS/ EXPORTEURS Der Unterzeichner erklärt, dass die vorgenannten Waren die Voraussetzungen erfüllen, um diese Bescheinigung zu erlangen. (Ort und Datum) (Unterschrift)	

<sup>(\*)</sup> Bei ungenutzten Käufen ist die Anzahl der Original- oder Kopien anzugeben oder eine geeignete Angabe anzugeben.

<sup>(\*)</sup> In der Bescheinigung ist die Herkunft der Waren anzugeben.

APPLICATION FOR A MOVEMENT CERTIFICATE

EUR-MED No A 000 000	
See notes overleaf before completing this form.	
1. Exporter (Name, full address, country)	2. Application for a certificate to be used in preferential trade between and (Insert appropriate countries or groups of countries or territories)
3. Consignee (Name, full address, country) (Optional)	4. Country, group of countries or territory in which the products are considered as originating
	5. Country, group of countries or territory of destination
6. Transport details (Optional)	7. Remarks <input type="checkbox"/> Cumulation applied with _____ (name of the country/countries) <input type="checkbox"/> No cumulation applied. (Insert X in the appropriate box)
8. Item number; Marks and numbers; Number and kind of packages <sup>(*)</sup> ; Description of goods	9. Gross mass (kg) or other measure (litres, m <sup>3</sup> , etc.)
	10. Invoices (Optional)

<sup>(\*)</sup> If goods are not packed, indicate number of articles or state 'in bulk' as appropriate.

Another simplification introduced by the Transitional Rules will be the abolishment of the certificate of origin EUR-MED. The main reason is that the distinction of two different schemes has become obsolete with the abolishment of the prohibition of drawback and with the introduction of full cumulation (except, as explained, for the textiles sector).

## 7.2 The Raise of Electronic Procedures (TR, Appendix A, Art. 17, §3 and 4)

In 2015, the EU launched the Registered Exporter scheme in their GSP. The system has foreseen the registration of companies in beneficiary countries, through their competent agencies, in a server in the EU. The system substituted over the past 3 years the certificate of origin and substituted it with an origin declaration on the invoice.

The transitional rules will introduce the option of a similar electronic registration system into the PEMC. However, the system has no further details yet, it has to be recalled as well, that the PEMC has already the system of approved exporters, which issue invoice declarations and in future “origin declarations”.

Furthermore, and importantly, the PEMC will keep as alternative the movement certificate EUR.1. TR, Art. 17, §4 sets the option, that countries might adopt systems to issue, transmit and accept proofs of origin (certificates and declarations of origin) electronically.

Although not specifically regulated, countries can adopt electronic certification systems, where exporters and producers can apply electronically for the issuance of certificates of origin. However, as electronic, preferential certificates are not yet accepted abroad, the competent authorities will issue a paper version.

In the meantime, it can be highlighted that **Amman Chamber of Industry (ACI)**, has already introduced a one-way **electronic application system**. Based on electronic application, ACI will issue the Certificate of origin in original, on paper. This is necessary as there is no linkage yet to the Ministry of Industry, Trade and Supply and to Customs Authorities, neither to the importing countries in the PEMC.

## 7.3 Suppliers Declaration (TR, Appendix A, Art. 29)

As shortly described under the title on full cumulation, the transfer of the information from the manufacturer of one country to the next producer abroad proofed challenging in the few agreements that knew full cumulation already. For this purpose, the EU proposed to introduce a form that was used since long time in the intra-EU trade, to confirm the origin of products inside the EU (which is a Customs Union).

The supplier’s declaration shall serve as evidence of the working or processing undergone in the party where the intermediate manufacturing has taken place and where full cumulation is invoked to issue a proof of origin. The supplier’s declaration has to be established in addition to the invoice, the delivery note, or any other commercial document, and describing the goods concerned in sufficient detail to enable them to be identified.

Where a supplier regularly supplies a particular customer with

goods for which the working or processing is expected to remain constant for a period of time, he may provide a single supplier’s declaration to cover subsequent consignments of those goods (the ‘long-term supplier’s declaration’). A long-term supplier’s declaration may normally be valid for a period of up to two years from the date of making out the declaration.

## 7.4 Competent Authorities and Cooperation (PEMC; Appendix I, Art. 31ff) (TR, Appendix A, Art. 31ff)

In Jordan, the issuing process for certificates of origin is rather lengthy but makes sure, the first instance knows best the companies residing in their territory of competence. Thus, the applicant needs to apply in the local Chamber of Industry or Chamber of Commerce. Once the Chamber confirms the originating status, the Ministry of Industry, Trade and Supply (in Amman or its branch in the Governorate where available) will approve (stamp) the certificate of origin. Upon exportation, Jordan Customs will stamp the certificate of origin once all export documentation is compiled. The last step is necessary as well to comply with the requirements of the PEMC.

Competent authorities of the PEMC ensure each other administrative cooperation, thus, they are entitled to verify proofs of origin in the country of issuance.

## 7.5 Obtaining Another Proof of Origin (self-declaration) (PEMC; Appendix I, Art. 21) (TR, Appendix A, Art. 18)

The PEMC offers a facilitation, which is an invoice declaration for consignments below the threshold of EUR 6,000 or, in the case of Jordan, of JOD 4,662 (as of 2020; value limit might change on a yearly basis).

Below this threshold, no certificate of origin or no approval from the competent authorities is necessary, and the exporters might add a specific declaration on his invoice or other commercial document. The wording must follow the exact meaning as given by the PEMC Appendix 1, Annex IV. In case of cumulation, a reference to cumulation must figure on the declaration as well.

Proofs of origin are intended for submission to the customs authorities of the importing party (PEMC; Appendix I, Art. 24) (TR, Appendix A, Art. 25).

It is not a change in substance, but the transitional rules will label the invoice declarations into “**origin declarations**”.

## 7.6 Approved Exporters (PEMC; Appendix I, Art. 22) (TR, Appendix A, Art. 19)

For amounts above EUR 6,000, the competent authority in the exporting country might authorise exporters to issue invoice declarations (TR: origin declarations) as well. The approval process leads to the status of “approved exporter” with the

issuance of a registration number. The approved exporter status is valid until its revocation.

The “approved exporter” scheme might sound similar but is not identical with “Approved Economic Operator” scheme (for instance, Golden List program of Jordan Customs). The purpose of the approved exporter under the PEMC is solely to facilitate issuance of proofs of origin and does not relate to other customs procedures.

## 7.7 Amounts Expressed in Euro (PEMC; Appendix I, Art. 30) (TR, Appendix A, Art. 30)

While all amounts in the PEMC are expressed in the currency EURO, a conversion mechanism is foreseen, to ensure that Members can publish their rates in local currency. The competent authorities communicate the converted amount to the EU Commission which on their side, will collect and publish the relevant information, usually on a yearly basis.

## 7.8 Exemptions from Providing a Proof of Origin Upon Importation (PEMC; Appendix I, Art. 26) (TR, Appendix A, Art. 27)

To facilitate small-scale trade, the PEMC contains a provision which exempts small consignments from the requirement of providing a proof of origin. This applies in the case of travellers’ luggage (thus, mainly for tourism sales) if the value of the items is below EUR 1200. This should favour sales from local shops to tourists, as their imports might be duty free (but no influence on internal taxation, i.e., VAT). Thus, if tourists buy from local shops some Jordanian specialities and products, they will not need any proof of origin upon importation in the EU or the EFTA for instance.

In the case of small postal packages, the value limit is set at EUR 500.

In both cases, the importer might declare the Jordanian origin without further proof. However, to avoid questions, the tourist should have at least an invoice. Both value-limits are not intended for commercial shipments. In the latter case, an invoice declaration (TR: origin declaration) is necessary.

## 7.9 Importation by Instalments (PEMC; Appendix I, Art. 25) (TR, Appendix A, Art. 26)

For large consignments of certain goods in the machinery sector it is possible to provide – at the conditions laid down by the importing Member of the PEMC – a single movement certificate EUR.1 or EUR-MED (in application of General interpretative rule 2a of the HS) for the whole consignment. The application is restricted to certain goods only and follows the same approach chosen by the HS for classification purposes. And it can raise questions of the importing country, as several containers could be shipped at different time, all covered by the same and only proof of origin.

## 7.10 Errors, Discrepancies, and Omissions (PEMC; Appendix I, Art. 29) (TR, Appendix A, Art. 28)

Small discrepancies and errors should not lead to a rejection of the certificate of origin in the next country, if the error does not affect the origin of the product or raise doubts about the correctness of the information provided.

A typographic error in the address or description of the product could eventually be a formal error, while it would be a grave error if the certificate states “Egypt” or “Lebanon” instead of “Jordan” as country of origin. As well, going beyond a formal error would be to provide a different name as exporter, without proper reference to bill of lading and invoice. Errors in the address are handled slightly differently from country to country, while some destination countries might accept it, some others might ask for verification of the proof of origin, if the address is not verifiable through the other documents like bill of lading or packing list.

## 7.11 Retrospective Issuance, Duplicates, and Copies (PEMC; Appendix I, Art. 17 and 18) (TR, Appendix A, Art. 21 and 22)

It can happen, that exporters discover only after the products have been exported, that they should have applied for a preferential certificate of origin. Or, what also happens, documents get lost during shipment, i.e., during a storm or other extraordinary events, or just because a shipping agent lost them on the way. For exporters, it is good to know what the PEMC offers some relief.

In case of involuntary omission, a movement certificate EUR.1 or EUR-MED can be issued retrospectively, meaning after the product(s) have been exported. The application must state the reason for the omission at the time of export. The issuing authority must verify the information provided and issue the certificate of origin accordingly. The certificate must say clearly “ISSUED RETROSPECTIVELY” (Box 7). This mention is essential as the date of issue of the CO and the date of the bill of lading will not coincide, triggering a post-verification or refusal to grant preferences. This mention makes sure that the importing country accepts the CO.

In the event of theft, loss or destruction of a movement certificate EUR.1 or EUR-MED, the exporter in Jordan might apply with the competent authorities for a duplicate made out based on the export documents in its possession. The newly issued certificate must be clearly marked with the word “DUPLICATE” (in Box 7).

## 7.12 Supporting Documentation and Verification (PEMC; Appendix I, Art. 27 and 32) (TR, Appendix A, Art. 31)

Some literature criticises that claiming originating status under preferential agreements is cumbersome and costly. Studies tried to show that administrative costs of compliance with rules of origin might reach 4% of the total costs of the shipment concerned (under NAFTA however).



Of course, the benefit of preferential status comes at a cost of administration, however, companies can implement good accounting principles and then, it will be relatively easy for them to prove origin. Implementation might also cost a bit more at the beginning, in time and monetary needs, eventually even reprogramming the accounting and stock management software.

As laid out earlier, it is important to check if the product exported needs a certificate of origin or not, before going through the paperwork. If a product has zero percent MFN duties, any origin exported can claim that tariff, and there is no need to apply for a certificate of origin. If upon importation in the destination country, there would be indeed an MFN duty applicable above a few percent, then it is certainly worthwhile to apply for a movement certificate EUR.1 or EUR-MED and as well, produce the supporting documentation.

The competent authorities can request “all appropriate documents” proving the originating status of the products concerned as well as the fulfilment of the other requirements of the PEM Convention. Supporting documents might be – depending on the regulation by the competent authorities (not exhaustive list):

Invoice and description of the products;

- Description of the manufacturing process, listing all inputs and detailing the manufacturing steps;
- If exporter, then detailed documentation from the producer in Jordan;
- Proof of origin certifying an entitled origin of another country which is member of the PEMC.

Authorities might ask for any further information they deem necessary to verify the origin of the concerned products or, the case may be, visit the factory for further inspection. Indeed, exporters need to attest that they will accept at any time an inspection of their localities.

### **7.13 Validity and Conservation (PEMC; Appendix I, Art. 23) (TR, Appendix A, Art. 23 and 31, §4)**

Please note, that a proof of origin shall be valid for four months from the date of issue in the exporting partner of the PEMC.

In case of duplicate, the duplicate takes over date and validity from the original certificate of origin, thus, a duplicate cannot extend the validity period.

All proofs of origin and supporting documents must be kept for a period of 3 years.

### **7.14 Post-Verification Options Sanctions (PEMC; Appendix I, Art. 32) (TR, Appendix A, Art. 34 and 35)**

Under normal circumstances, the verification of the competent authorities is sufficient and once the product is imported into the destination country, no further questions are raised. Nevertheless, all documents have, as written earlier, be kept for 3 years from the date of application.

Background for this rule is that some countries do perform post-verifications on their imports and might randomly pick some proofs of origin for post-verification, even after one or up to two years from the date of importation (i.e., the EU). It might also be, that some products are specifically targeted because the importing country has certain trade measures into place or based on complaints raised by competitors in their country. In such cases, the importing country will seek for the post-verification of the proofs of origin submitted and will refer the matter to the competent authorities in Jordan. Based on the documentation available, the authorities in Jordan will perform a first verification and, if they have doubts as well, make the proper verification with the exporter or producer. It might be, that the competent authority will request more information or, pay a visit to the applicant for obtaining all necessary information.

Once the matter is ascertained, the competent authorities will respond to the post-verification in appropriate manner.

The Transitional Rules dedicate a full article to the verification of the supplier's declarations or long-term supplier's declarations. Also, in this case, verification might happen on a random basis or based on reasonable doubts from the exporting but also importing authorities.

### **7.15 Administrative and Penal Sanctions (PEMC; Appendix I, Art. 34) (TR, Appendix A, Art. 36)**

If the verification or post-verification reveals that origin has been claimed erroneously, there are different administrative sanctions. The competent authorities will:

- Refuse to issue the certificate of origin.
- Recall and annul the issued certificate of origin as well as annul wrong invoice declarations.
- Inform the destination country accordingly (based on mutual assistance contained in the PEMC).
- Take the legal actions as foreseen in the national legislation.

The importing country might also take further steps, mainly against the importer, and put specific products in their database to perform more check (based on risk-assessment). This also implies that applying the necessary diligence is of utmost importance for the exporter, also to keep good relations with the potential importers. Certainly, a wrongdoing would undermine trust and business opportunities.

Of course, under the Transitional Rules, these actions will include origin declarations and supplier's declarations.





**8**

## **Institutions in Jordan**

## 8.1 Manual of MITS (on Jordan Compact)

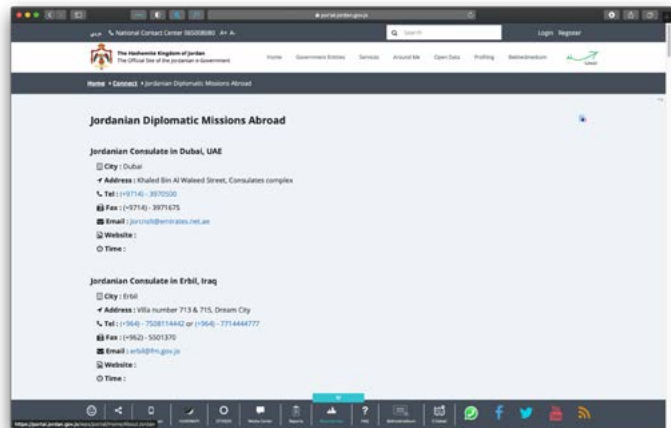
Link to materials and awareness concerning Jordan Compact (at least in Online PDF publication)

[www.mit.gov.jo](http://www.mit.gov.jo)



## 8.2 Jordanian Embassies Abroad

<https://portal.jordan.gov.jo/wps/portal/Home/Connect/JordanianDiplomaticMissionsAbroad/>

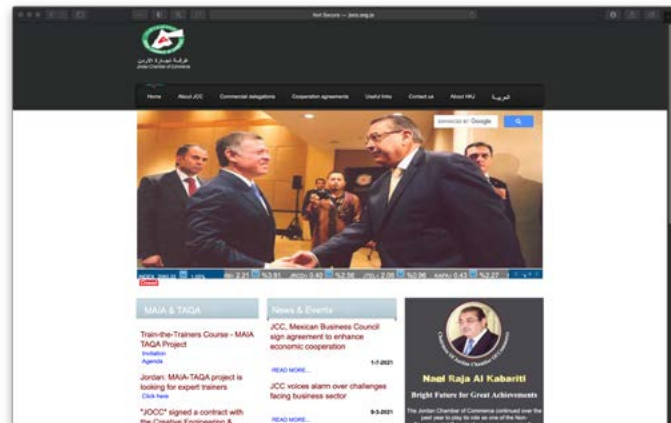


## 8.3 Chambers of Industry and Chambers of Commerce in Jordan

<https://www.jci.org.jo/>

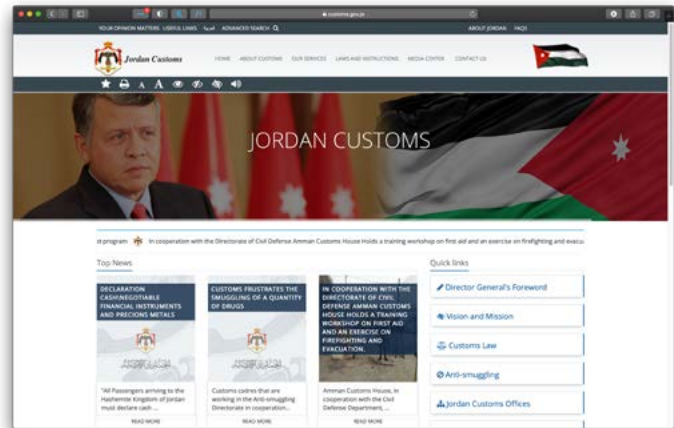


<http://www.jocc.org.jo/>



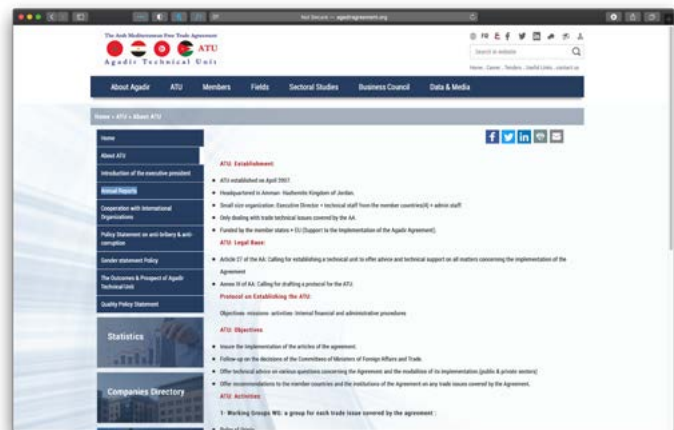
## 8.4 Jordan Customs

<https://www.customs.gov.jo/en/index.aspx>



## 8.5 The Agadir Technical Unit (ATU)

<http://www.agadiragreement.org/Pages/viewpage.aspx?pageID=188>



## 8.6 Helpful institutions Abroad:

The country of destination often has a lot of information available, mostly online and mostly in the national languages and partially in English. The information can not only be from Government but also from research institutes or public-private organisations, chambers of industry and trade, etc.

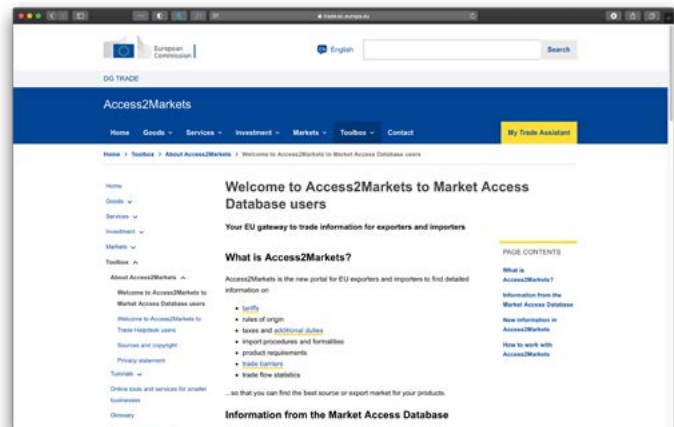
### 8.6.1 Market Access Database of the EU

**Access2Markets** is the new portal for EU exporters and importers to find detailed information on:

- tariffs
- rules of origin
- taxes and additional duties
- import procedures and formalities
- product requirements
- trade barriers
- trade flow statistics

The Market Access database also includes an origin assistant called "ROSA", Rules of Origin Self-Assessment. This Database as well substituted the previous Trade Helpdesk of the EU.

<https://trade.ec.europa.eu/access-to-markets/en/content/welcome-access2markets-market-access-database-users>

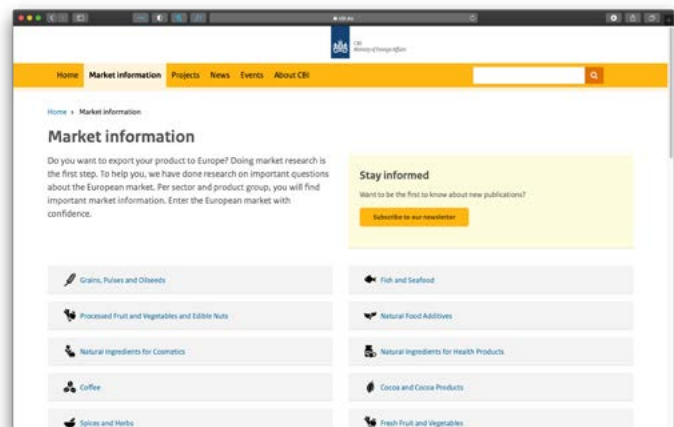


### 8.6.2 Dutch Import Promotion and Information Portal

<https://www.cbi.eu/market-information>

The CBI Homepage offers a variety of information to exporters abroad. It contains several market studies and information.

Eventually, it is the most complete helpdesk available.

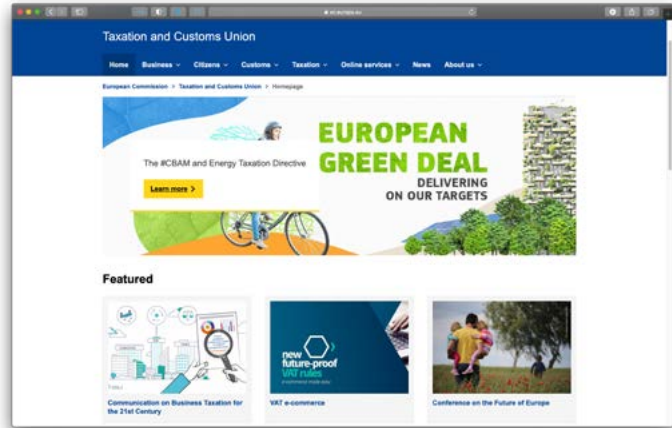


### 8.6.3 Manuals of the EU

The EU DG TAXUD maintains its own online handbook, which is as well a good guide on the EU PEMC Rules of origin. It can be accessed here:

[http://ec.europa.eu/taxation\\_customs/sites/taxation/files/resources/documents/customs/customs\\_duties/rules\\_of\\_origin/preferential/handbook\\_en.pdf](http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/customs/customs_duties/rules_of_origin/preferential/handbook_en.pdf)

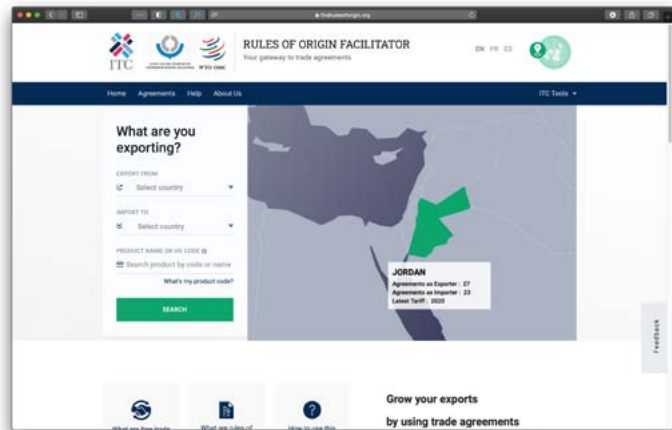
It is available in English only.



### 8.6.4 International Trade Centre (ITC) & the WTO & the WCO

<https://findrulesoforigin.org/home>

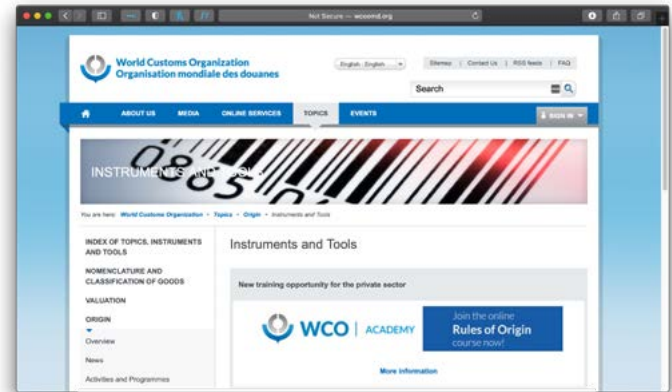
The International Trade Centre, together with the World Trade Organisation, and the World Customs Organisation created a tool to find all information available on rules of origin worldwide. However, please note, all references and information are not legally binding.



### 8.6.5 World Customs Organisation

The World Customs Organisation contributed substantially to try to capture the status of non-preferential and preferential rules of origin. On one side, already the venerable Kyoto Convention from 1973 featured non-preferential rules of origin in Annex D, while only little was carried forward to the Revised Kyoto Convention as the WTO was trying to establish non-preferential, harmonised rules of origin. It is not clear yet, how much substance will be added to the current, ongoing revision of the Kyoto Convention.

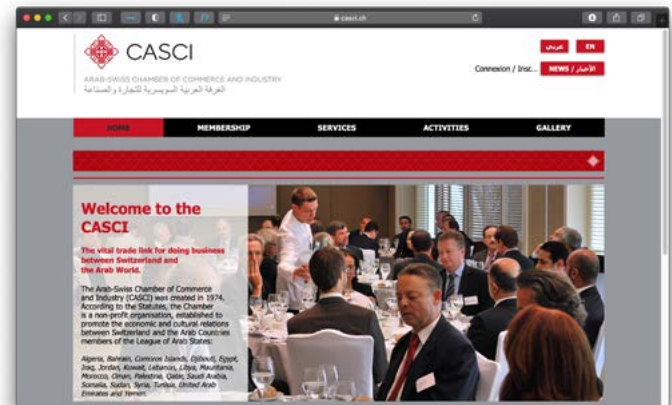
<http://www.wcoomd.org/en/topics/origin/instrument-and-tools.aspx>



### 8.6.6 Chambers of Industry and Commerce Abroad

Frequent exporters from Jordan might also envisage joining a Chamber of Industry and Commerce abroad. One prime example of helpful organisation is the Arab-Swiss Chamber of Commerce and Industry, aiming at helping bilateral relations among Switzerland and Arab countries, including Jordan.

<https://www.casci.ch/arb-home>



Similarly, also other bilateral Chambers exist, as a title of example:

<https://www.ablcc.org/> (Arab-Belgian-Luxembourg Chamber of Commerce)

<http://www.bachamber.eu/>



A wooden post with four directional signs. The signs are made of light-colored wood and are attached to the post with silver screws. The signs are arranged in a vertical stack, each pointing in a different direction. The background is a clear blue sky.

**HELP**

**SUPPORT**

**ADVICE**

**GUIDANCE**



# 9

## Further Help and Guidance

## 9.1 BINDING ORIGIN INFORMATION (BOI)

If, after all, doubts persist about the correct origin determination for a specific product, a so-called binding origin information (BOI) decision might be envisaged. The BOI can be obtained in the EU Member State's customs administration where the information will be used (country of future importation). It is binding and valid for three years. It can be obtained by the importer into the EU but also by the exporter in Jordan himself. The first option presumes, that there is a certain trust between exporter and importer as sensitive production data or cost calculations might be exchanged. In case a Jordan exporter might proceed himself, an official EU language must be used.

BOIs are valid for a period of 3 years but may be annulled if it emerges that they were based on wrong or incomplete information provided. A change in the law might also render a BOI invalid.

A list of the authorities responsible for issuing BOIs in the EU is published in OJ C29 of 28.01.2017, p.19.

In the case of EFTA countries, origin information should be obtained in Jordan primarily, meaning, exporters domiciled in Jordan should rather ask the competent authorities about all origin matters rather than the importing country.

## 9.2 ELECTRONIC BINDING TARIFF INFORMATION (EBTI)

### 9.2.1 Jordan Customs

At the moment, Jordan Customs releases only non-binding tariff information, however, once the Customs law is amended, Customs can release binding tariff information in a near future.

### 9.2.2 Customs authorities of EU Member States

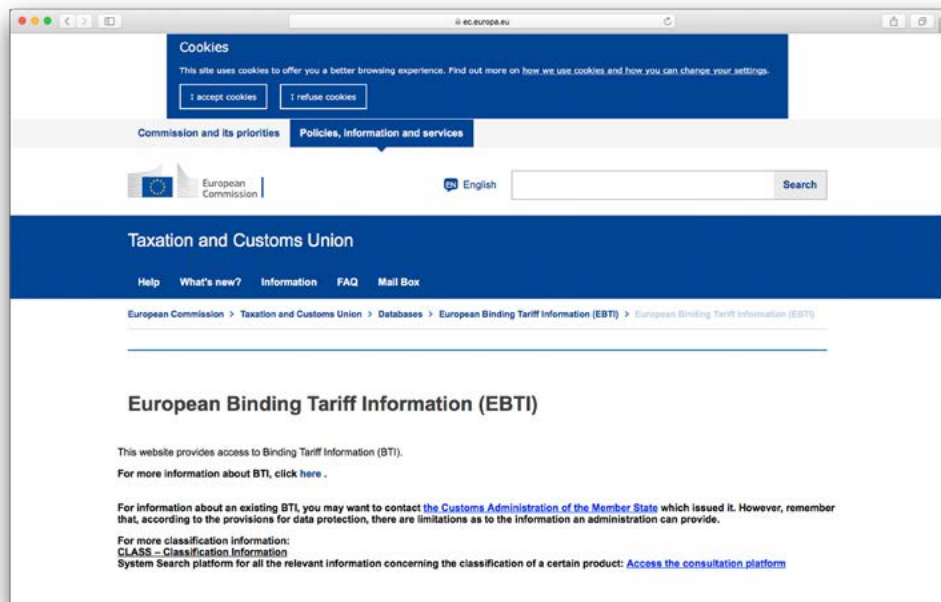
Anyone with a specific interest can ask the importing country (thus, an EU Member state and not the EU Commission) for a binding tariff information, using the appropriate BTI Online Application system. Before that however, the operator has a few administrative steps to fulfil, thus, for Jordanian exporters, it is not that easy to access the EBTI Online system.

[https://ec.europa.eu/taxation\\_customs/business/calculation-customs-duties/what-is-common-customs-tariff/binding-tariff-information-bti-apply\\_en](https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/what-is-common-customs-tariff/binding-tariff-information-bti-apply_en)

This is advisable, if the tariff classification is not clear but needs to be decided to correctly apply the rules of origin, or to find the exact MFN duty applicable.

The EU Member state Customs also record each decision in an online system which has reached already over 1 million entries. Non-confidential content is available online at:

[http://ec.europa.eu/taxation\\_customs/dds2/ebti/ebti\\_home.jsp?Lang=en](http://ec.europa.eu/taxation_customs/dds2/ebti/ebti_home.jsp?Lang=en)





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