



MAKING RULES OF ORIGIN WORK FOR LEBANESE BUSINESSES

The Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin (PEM Convention): What It Is and How It Works for Products of Lebanese Priority Sectors

A Real-Life Manual

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A PROJECT SUPPORTED BY



What this Manual Aims to Do

This manual aims to explain, in clear language and with a business focus, what rules of origin are, why they matter, and how they work.

The main focus is on the *Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin*. This 'PEM Convention' sets out to ensure that in future the same rules of origin apply around the Mediterranean and all across Europe, wherever participating countries have free trade agreements among them. It also serves as a basis for the cumulation of origin among participating countries. While these harmonized rules will only in the future apply in Lebanon's trade relations with other countries, many rules that currently determine origin for purposes of trade agreements, such as the Lebanon-EFTA Free-Trade Agreement or the Lebanon-EU Association Agreement, are largely the same as in the PEM Convention. It makes thus already now plenty of sense to look at details, and in doing so consider the possibilities that will open in the future, in particular through the cumulation of origin. With the support of the EFTA States (Iceland, Liechtenstein, Norway and Switzerland), this manual aims at providing support to Lebanese businesses in using the opportunities for preferential trade under the EFTA-Lebanon Free Trade Agreement. But it is equally useful for businesses trading with other countries in the Pan-Euro-Mediterranean area, such as the EU, Turkey and others.

This booklet is first and foremost for businesses, but officials may find it useful as well. It explains, with many examples and through detailed sectoral chapters, how PEM rules of origin operate in real-life business situations. While the focus is on the substantive rules on how to obtain 'origin', this manual also provides some practical information on key processes and formalities, such as certificates of origin.

This manual targets in particular producers and exporters and the people whose job it is to help them in managing rules of origin in their export markets – such as customs, chambers of commerce, and others. It is designed as both an information and a training manual. Multiple examples are provided that can be used as exercises for self-study or training purposes.

A Word of Caution,...

This is a practice manual that aims to explain how things work, but it is neither a legal text nor an authoritative interpretation of applicable rules. The text of the PEM Convention (the “*Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin*”) and the relevant Free Trade Agreements (FTAs) between the exporting and importing countries, for example the EFTA-Lebanon FTA or the EU-Lebanon FTA, remain the basis for any legal interpretation.

While the manual is meant to help producers, exporters and importers and hopefully provides useful guidance on how the relevant rules work for them in practice, they can and should seek additional advice from the relevant customs authorities whenever any doubts remain. It is the custom authorities that will be able to make decisions in individual cases.

...a Disclaimer...

This manual has been commissioned and funded by the EFTA countries Iceland, Liechtenstein, Norway and Switzerland, for the benefit of the Republic of Lebanon, its Ministry of Economy and Trade and Lebanon’s stakeholders, in particular its businesses. It is one of the results of a project which also included a series of sectoral workshops, other events and some advisory contributions.

This manual remains the product of advisors, however, and none of its content can be directly or indirectly attributed to EFTA, the EFTA countries or the Republic of Lebanon or their institutions.

...and a Few Acknowledgements

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What, Why and How: A One-Page Summary on PEM Rules of Origin

Origin is the nationality of a product. It determines whether trade preferences apply. If goods are traded between countries that grant each other trade preferences such as duty-free treatment, it matters greatly whether a product *originates* from a beneficiary country or not. Rules of origin determine the ‘nationality’ of a product. Preferences apply in particular under Free Trade Agreements (FTAs), for example the Lebanon-EFTA FTA, the Lebanon-EU Association Agreement or the Greater Arab Free Trade Area GAFTA. Third country goods can be traded, of course, but without preferential treatment.

Normally each trade agreement has its own rules of origin. This fragments the options for businesses and may block value chains. It means that Lebanese producers can enjoy preferential treatment when dealing with the EFTA States, EU, or some others, but cannot easily combine these benefits into a network of suppliers and customers, to benefit from diagonal value chains. For this the possibility of the ‘cumulation of origin’ is needed.

The PEM Convention aims to bring cumulation and harmonized rules of origin across the Euro-Mediterranean space. It establishes a single set of rules which can and should in the future be implemented to and applied in all bilateral or regional trade agreements among its signatories. These include the 28 EU Member States, the four EFTA states, Turkey, the Western Balkans (mostly Ex-Yugoslavia) and almost all Mediterranean countries. Where it is applied it creates harmonized rules and – that’s the main point for business users – allows for “diagonal” cumulation of origin. Products will be able to be exported from, say, Egypt to Lebanon, there further processed (but less than what would be needed to obtain origin if the product came from, say, China), and exported duty free to Switzerland under the Lebanon-EFTA Agreement.

The actual substantive rules of origin in the PEM Convention are currently almost the same as those in the agreements with EFTA and the EU. That’s not accidental: The substantive rules are meant to be the same, as they are designed to replace the existing bilateral rules without causing disruption. Only the cumulation rules, logically, are not identical. They will in the future establish the Pan-Euro-Mediterranean cumulation area, so to say, allowing businesses to operate value chains throughout that area, benefiting from preferential treatment.

The rules apply the classical mechanics of rules of origin. All export-oriented businesses should understand them in any event. In order to be considered ‘originating’ from Lebanon products either have to be ‘*wholly obtained*’ in the country (these are the “born and bred”) or – if they contain foreign inputs – have to undergo ‘*sufficient working and processing*’ in the country. Almost 100 pages of product-specific *List Rules* determine what exactly is required, using classical criteria such as a *change in tariff headings (CTH)*, *value addition*, and/or *specifically prescribed processes* to determine the origin of the final product. This is where cumulation can help greatly, as it allows foreign input materials from other PEM countries to be treated as if they were local inputs.

A first PEM revision process is under way. Because the PEM Convention is designed to apply automatically in all FTAs among participating countries, once these FTAs have been adapted to refer to the PEM Convention, it allows the rules to be changed centrally, instead of changing 60+ agreements individually. Lebanon participates in the ongoing revision process. Businesses need to be

and remain engaged to guide their government as to their interests and concerns. And Lebanon would of course need to ratify the PEM Convention to secure its benefits.

What, Why and How: A Few Teasers to Get Started

Nut Mixtures – A Lebanese Product?

Mixtures of nuts and seeds are among the prominent Lebanese export products. But many of the nuts and seeds used in those mixtures do not actually come from Lebanon. They are imported from various countries, mostly in raw form. Are the mixtures considered to be of ‘Lebanese origin’ when



it comes to exporting them to the EU, allowing them to avoid customs duties between 7% and 12.8% under the Lebanon-EU Association Agreement?

Curiously the answer depends, among other things, on whether the mixture contains added sugar. The so-called *List Rule* applicable to the *tariff (or HS) Heading* for nut mixtures (HS 2008) makes that distinction for nuts. Salty mixtures – if they do not contain added sugar – can contain foreign inputs if the locally grown nuts and oil seeds make up at least 60% of the value of the mixture. Mixtures with sugar do not fare so well. For them all nuts contained must be ‘*wholly obtained*’ (i.e. grown and harvested in Lebanon). Nuts grown and harvested in *cumulation* countries – FTA partner countries applying the same rules and subscribing to cumulation, for example through the PEM Convention – are exempted – they can be freely included. However, a 10% *General Tolerance Rule* applies – up to 10% of foreign nuts can thus be included.

In both cases, however, just simple mixing is not enough – that would be a so-called minimal operation (*‘insufficient working or processing’*) that does not confer origin. But if the process – as it usually does – includes roasting, flavouring and other more sophisticated treatments it can generate ‘origin’.

Fruit Juice from Imported Fruits – a Lebanese Product?

Are juices, or juice-containing drinks, produced in Lebanon considered to be Lebanese (‘originating’) if they are produced from imported fruits?



The answer may surprise: In principle yes – unless the imported sugar content goes above 30% in terms of value, not volume.

The applicable *List Rule* (for HS Heading 2009) does not require the fruits themselves to come from Lebanon or any other particular place. The *Change of Tariff Heading* that happens when fruits are transformed into juices is sufficient. Imported fruits can be used freely, no limits apply. The rule is thus quite liberal.

Cardboard Boxes – a Lebanese Product?

Lebanese businesses produce cardboard boxes (HS Heading 4808) from imported corrugated and non-corrugated paperboard. Are the cartons ‘originating’ in Lebanon?



The answer depends on the value of the imported input materials. If that value is not more than 50% of the final (“*ex-works*”) price of the boxes, the boxes are considered Lebanese. The other criterion that applies at the same time is usually fulfilled, namely a *Change of Tariff Heading* (CTH) because the cardboard is listed under a different *Heading* than the cartons. (An HS Heading, or Tariff Heading, refers to a category of products defined under a four-digit number in the *Harmonized System*, which is used by most countries worldwide in the classification of goods for customs purposes.)

Diamonds Cut in Lebanon – a Lebanese Product?

Diamonds (HS Heading 7102) are both an important import product and an important export product of Lebanon. Between imports and exports Lebanese jewellers add value to imported diamonds through cutting, polishing etc. But are their products of ‘Lebanese origin’ when it comes to rules of origin?



The answer will often be yes, often also no. It depends on whether the diamonds were raw (“unwrought”) or already partly worked when they were imported into Lebanon. The *List Rule* for “worked precious or semi-precious stones” requires (in fact: allows) the ‘manufacture from [foreign, ‘non-originating’] unworked precious or semi-precious stones’. If an imported raw diamond, for example from South Africa, is cut in Lebanon, the resulting product – the cut diamond – acquires Lebanese origin, according to the PEM rules. It will thus benefit from preferential treatment when exported to participating countries. While many currently grant duty free treatment to diamonds anyway, this may not always remain the case.

1. Why Rules of Origin? What Rules of Origin? Why a Pan-EuroMed Convention? And What's in it for Lebanese Businesses? An Introduction

What are Rules of Origin?

Rules of origin determine the 'nationality' of a product. For some products it is clear and unequivocal where they come from. An apple that grows on a tree on Mount Lebanon is clearly a Lebanese apple – what else could it be? But for others it is less obvious. A dress sown in Tyre from imported silk, a cardboard box produced in Beirut with paperboard from India, or a nut mixture that includes pistachios from Pakistan and almonds from Egypt – are they Lebanese products? Rules of origin answer this question.

Why do we need them, and for what exactly?

But why should we worry about the nationality of a product? Why would it matter where a product comes from? There are two main reasons why people care: Consumer information and customs duties. Rules of origin are about the latter: customs duties, or rather more generally: trade preferences.

Most countries apply special customs preferences to goods from certain other countries, but not to others. Such preferences apply in particular under Free Trade Agreements (FTAs), for example the Lebanon-EFTA FTA, the Lebanon-EU Association Agreement, the Lebanon-Turkey FTA, the Greater Arab Free Trade Area GAFTA or the Agadir Agreement, which Lebanon is planning to join. In these and other systems the whole idea is that only 'originating' products benefit from the mutually agreed preferences. Third country goods can be traded, of course, but without preferential treatment. Rules of origin thus determine which goods benefit from trade preferences.

One quick word about the first issue: Consumer information. This concerns labels such as "Made in Lebanon", "Fabriqué in France" or the like, or the obligation of restaurants to indicate the source of their meat. Such labelling – sometimes mandatory, sometimes voluntary – is done for consumer information. The rules that apply to determining where a particular good comes from *for purposes of consumer information* are entirely separate from rules of origin, and may often be quite different because they serve a different purpose. So it is good not to mix them up – this manual is about rules of origin that determine whether a product is granted preferential treatment at the border, not marks of origin for consumer information.

Why and when should I (not) care about Rules of Origin?

Because rules of origin serve to grant or deny trade preferences, you really only have to care if you actually want to use such preferences – or if your customers want you to apply the rules so that they can later use trade preferences. That means that if a product anyway enjoys duty free treatment in your target export market, you don't have to worry about your inputs and your value added – the rules don't matter to you (again, this may be different if your customer cares).

You may also choose to ignore rules of origin. This may be useful when your current sources are a lot cheaper or simply better than those which you would have to use to conform to rules of origin, and

you can make more profit (or otherwise gain more benefit) from the final product even if it attracts the applicable duty.

In other words: Applying rules of origin is an option, not an obligation. You should choose this option if the trade preferences are significant enough, or if it fits you anyway, or both. You should not bother if you are better off without them.

What are PEM Rules of Origin?

The PEM Convention is first and foremost a standard set of substantive and procedural rules of origin. These rules are very, very similar to the rules of origin that already apply in Lebanon's agreements with EFTA and the EU. They consist of the same general provisions on how origin is and is not obtained ('wholly obtained', 'sufficient working or processing', 'insufficient working or processing', etc.) and the same product-specific "List Rules." They also contain rules on how origin can be cumulated in value chains of producers in several participating countries – the so-called 'diagonal cumulation' of origin. To explore how all these rules work for businesses is the main objective of this manual.

Why then a new Pan-Euro-Med Convention on Rules of Origin?

The PEM Convention brings cumulation and harmonized rules of origin across the Euro-Mediterranean space. It establishes a single set of rules which should in near future be implemented in all bilateral or regional trade agreements among its signatories. This is done by replacing the existing protocols on rules of origin in those FTAs with a reference to the PEM Convention (see box below). The PEM signatories include the 28 EU Member States, the four EFTA states, Turkey, the Western Balkans (mostly Ex-Yugoslavia) and almost all Mediterranean countries. Where it is applied it creates harmonized rules and – that's the main point for business users – allows for "diagonal" cumulation of origin. Products will be able to be exported from another Euro-Mediterranean country, for example Greece (EU) or Bosnia, to Lebanon, there further processed (but less than what would be needed to obtain origin if the product came from a third country, for example India), and exported duty free to Norway and Iceland under the Lebanon-EFTA Agreement.

A Note on EFTA-Lebanon Trade

Until a link between the PEM the EFTA-Lebanon FTA is established the existing protocol on rules of origin in the EFTA-Lebanon FTA remains applicable.

In the case of EFTA the situation is somewhat special: The free trade agreement between EFTA and Lebanon covers all products except most agricultural products (HS Chapters 1-24), many of which are covered instead in bilateral agricultural agreements between the individual EFTA states on the one hand and Lebanon on the other. However, some processed agricultural products are covered by the main agreement and listed in a separate protocol.

Economic operators are encouraged to consult the EFTA webpage on what rules are applicable, as EFTA is in process of adapting their agreements. When in doubt, stakeholders should contact the EFTA States customs authorities for information. Links to their websites can be found in the final section of this manual.

Is it correct that the PEM Convention rules do not yet apply to Lebanon?

Yes, that's right. Lebanon and many others have not yet made the PEM Convention effective in their bilateral agreements. This will still need to happen, and is done by incorporating the Convention's Appendix – the actual set of rules rules – into those bilateral agreements.

Does this mean there are no possibilities of cumulation yet for Lebanese producers?

No – some possibilities of bilateral cumulation already exist, but not yet the attractive diagonal cumulation between three or more countries.

The existing agreements already foresee some cumulation of origin, but as of yet do not achieve a network of diagonal cumulation opportunities. The EFTA-Lebanon Agreement already contains the possibility of diagonal cumulation. However, it lacks the necessary counterparts in other agreements, so currently it only works in the form of bilateral cumulation between producers in EFTA states and Lebanon. The EU-Lebanon Association agreement currently only foresees bilateral cumulation between the EU and Lebanon in the first place.

So why should I try to understand the rules now? Four reasons why you should care – and read this manual.

- (1) You need to understand how rules of origin work in general if you want to export or import successfully. This manual aims to make rules of origin your best friend – all rules of origin, not just the PEM rules. Even if you never apply the PEM rules this will be well-invested time.
- (2) The PEM rules of origin explored here are (almost) the same rules that already apply in Lebanon's trade with the EFTA and EU . You should know them in detail, especially those that concern specifically your sector and your products.
- (3) You need to understand, assess and promote the opportunities that more cumulation of origin can bring. Pan-Euro-Mediterranean cumulation means: profitable business cooperation across the Euro-Mediterranean area – for you and your competitors.
- (4) You need to react and shape the rules of the future. Static, unchangeable rules that don't adjust to business reality are a thing of the past if businesses take their responsibility seriously. To provide your input into the review of the rules (both the current review process and future rounds) you need to know what you're talking about. This also applies to all future trade agreements Lebanon will conclude, whether with PEM parties or third countries. Go shape the rules so that they fit your business!

The PEM Convention for Experts – Two Words on the Structure and Mechanics of its Application

The **main text of the PEM Convention** is very short – just eleven articles. Its main component is its **Appendix I** with the slightly heavy title “*The definition of the concept of ‘originating products’ and methods of administrative cooperation*”: This is where the actual **(general) rules of origin and related procedures** are addressed. Appendix I corresponds to the protocols of origin in FTAs. (Throughout this Manual whenever an “Article” is cited without further specification this refers to one of the 35 articles making up the text of this Appendix 1.)

The product-specific “**List Rules**” are then found in **Annex II** to that Appendix I – they define, product by product, the required “sufficient working or processing” required for products with foreign (‘non-originating’) inputs. The title of that Annex II says it all: “*List of working or processing required to be carried out on non-originating materials in order for the product manufactured to obtain originating status*”. The “List Rules” in Annex II are preceded by an **Annex I** which contains “**Introductory notes to the list in Annex II**”. These introductory notes are important for the correct reading of some of the List Rules, for example those on textiles.

Curiously the PEM Convention itself, although legally an international treaty, does not actually bind the Parties directly to the rules of origin in Appendix I. Rather, the **Convention operates as a reference document whose rules only actually apply through and by virtue of bilateral FTAs** between its Parties. The idea is that those FTAs between its Parties incorporate the PEM rules of origin, ideally by *referencing the entire PEM Convention* (or, more precisely, the rules of origin contained in it). See, for example, the EFTA-Montenegro Agreement’s Article 8.1:

“The rights and obligations of the Parties in respect of rules of origin and administrative cooperation between the customs authorities of the Parties shall be governed by the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin...”

In existing FTAs the original protocol on rules of origin is replaced by such a reference. This naturally requires a change of those FTAs, which may take time.

This incorporation into FTAs generates two of the Convention’s key effects: Rules of origin in all those FTAs are eventually fully harmonized, making the much-desired *diagonal cumulation* of origin possible (cumulation where three or more countries are involved). Second, any future changes to those rules only need to be done once centrally in the PEM Convention itself. Once the changes are made in the PEM Convention they apply automatically in all those FTAs that make reference to the Convention.

It is useful to keep in mind that the PEM Convention is not itself a trade agreement. Its rules of origin only apply through FTAs that Euro-Mediterranean countries have concluded in the past, or choose to conclude in the future. While there are currently over 60 FTAs between PEM countries in various formations, not every PEM country has an FTA with every other PEM country, nor is there an obligation to conclude one. But if they have an FTA or decide to conclude one, they should reference the PEM rules of origin in it.

2. What is a ‘Lebanese’ Product? All you need to know about the key mechanics of producing an ‘originating’ product

What tools do I need? Three Sets of Rules You Need to Have Handy

Harmonized System (HS): The rules often depend on what specific product we’re talking about. Its classification in the HS determines which “List Rule” applies. Often we also need to know where the input products are classified in the HS – otherwise we will not know whether there was a Change of Tariff Heading (CTH). The HS is freely available online or – the easiest! – as a smart phone app! Sometimes you may need to read the introductory notes for a chapter, but otherwise it’s not very complicated – try it out, in nine out of ten cases you’ll find that you can classify your products and inputs quite easily.

The List Rules: Once you know your product’s HS Heading, the List Rules themselves will often tell you what applies. But be a little bit careful: Make sure that you apply a special rule only when your product is captured by it. Otherwise the Chapter Rule applies. Watch out for the introductory notes – sometimes they provide the key to a solution.

The General Rules: Make sure you have at least an overview of the general rules (this manual provides you with that). In particular: Keep an eye on ‘wholly obtained’ (if yes, don’t worry about anything else), ‘insufficient working and processing’ (if yes, no List Rule will help you) and the General Tolerance Rule (up to 10% is often OK, except for textiles & clothing).

2.1. How Does a Product Become ‘Lebanese’? (Article 2²)

There are two main ways for a product to acquire Lebanese origin, modified by a few exceptions (permissive and restrictive):

The product is either **‘wholly obtained’** in Lebanon; or the foreign inputs are substantially transformed through **‘sufficient working and processing’** in Lebanon.

What ‘sufficient working or processing’ means is defined for each product in the so-called product-specific **“List Rules”** in the PEM Convention.

Their effect is modified by a **General Tolerance Rule** which allows for 10% foreign inputs, in deviation from the List Rules.

In order for a product to obtain origin, the production step required is subject to a minimum threshold: operations that are listed as **‘insufficient working or processing’** do not confer origin even if they satisfy the List Rules.

These basic rules already get you far. But there are of course a number of things to watch out for, such as procedural rules, definitions, and the like.

The most important additional thing to keep in mind is **‘cumulation’ of origin**. Products and materials that are imported from countries with which cumulation is applied count as ‘originating’ inputs. In other words: They are treated as if they came from Lebanon. That means you don’t actually have to work much on them to generate Lebanese products, *i.e.*, products that can then benefit from trade preferences when exported.

² Throughout this Manual whenever an “Article” is cited without further specification this refers to one of the 35 articles making up the text of Appendix I to the PEM Convention. This Appendix I titled “*The definition of the concept of ‘originating products’ and methods of administrative cooperation*” is the main component of the PEM Convention. This is where the actual (general) rules of origin and related procedures are addressed. Appendix I corresponds to the protocols of origin in FTAs. The “List Rules” are contained in its Annex II.

2.2. What Is a ‘Wholly Obtained’ Product? (Article 4)

The basic idea

Wholly obtained products are products that are ‘true natives’ meaning that one and only one country was involved in their production. Think of olives that grow on local trees, copper extracted from the soil, or furniture made from local wood.

Even a small addition or input from any other country would usually disqualify a product from being such a ‘native’. That’s the idea – however, a closer look at the rules reveals that in some cases the products may have been foreign before they became ‘wholly obtained’. That’s the case, for example, for scrap and waste from production (may stem from foreign input materials), or locally collected used products no longer fit for use (may have been imported). In other cases their ancestry is foreign – for example: calves born locally to ‘immigrated’ cows.

The rule in the PEM Convention – Article 4 of Appendix I to the PEM-Convention

There is an exhaustive list of products that are considered to be wholly obtained – most of it is self-explanatory. Slightly edited to reflect a Lebanese perspective, the list in Article 4 looks as follows:

- (a) mineral products extracted from the soil or from the seabed in Lebanon;
- (b) vegetable products harvested in Lebanon;
- (c) live animals born and raised in Lebanon;
- (d) products from live animals raised in Lebanon;
- (e) products obtained by hunting or fishing conducted in Lebanon;
- (f) products of sea fishing and other products taken from the sea outside the territorial waters of Lebanon by its vessels;
- (g) products made aboard Lebanese factory ships exclusively from products referred to in (f);
- (h) used articles collected in Lebanon fit only for the recovery of raw materials, including used tyres fit only for retreading or for use as waste;
- (i) waste and scrap resulting from manufacturing operations conducted in Lebanon;
- (j) products extracted from marine soil or subsoil outside in the territorial waters provided that Lebanon has sole rights to work that soil or subsoil;
- (k) goods produced in Lebanon exclusively from the products specified in (a) to (j).

Anything tricky to watch out for?

The terms are mostly self-explanatory, but three things deserve a quick look:

- There are a few drafting oddities that have crept into the text of Article 4. You can largely ignore them, but it may help to know their background. The English version for example talks about ‘*vegetable products harvested there*’, but is silent about fruits and also plants. This is because the French version ‘*produits végétales*’ – plant-based products – has been mistranslated. So just remember: All plant products that are obviously wholly obtained because they are harvested in Lebanon are covered by this Article 4. So apples harvested

from trees in the Mount Lebanon, although fruits and not vegetables, fall under this rule and are considered to be ‘wholly obtained’ in Lebanon..

- Note the difference between (h) used products collected in the country, and (i) scrap and waste resulting from production. Both can come from originally foreign products. Used goods must have reached a stage where they are no longer usable. Scrap and waste only need to result from production in the country.
- Rules of origin often struggle with fish caught on the high seas, but the PEM applies a standard approach. The terms ‘vessels’ and ‘factory ships’ in paragraph 1(f) and (g) are explained in paragraph 2 of the Article. They refer to vessels and factory ships 1) registered or recorded in Lebanon, 2) sailing under the flag Lebanon, 3) owned to an extent of at least 50 % by Lebanese nationals, or by a company with its head office in Lebanon, of which the manager or managers and the majority of the members of such boards are nationals of Lebanon, and of which, in addition, in the case of partnerships or limited companies, at least half the capital belongs to Lebanon or to public bodies or nationals Lebanon, 4) of which the master and officers are nationals of Lebanon, and 4) with at least 75 % of the crew that are nationals of Lebanon.

2.3. What Is ‘Sufficiently Worked or Processed’? (Article 5)

The basic idea

If a product is not ‘native’ (wholly obtained), i.e. includes foreign materials, these foreign materials must be transformed to acquire origin, not just pass through the country – that would be simple transshipment. The PEM Convention calls this transformation ‘sufficient working or processing’, other treaties call it ‘substantial transformation’. The idea is the same.

In the PEM Convention the actual ‘working or processing’ that is needed to generate ‘originating’ final products is determined by product specific rules (the so called ‘List Rules’). These List Rules describe the transformation that non-originating materials have to undergo to acquire origin, i.e., become ‘originating’. Think of List Rules are ‘immigration’ rules for foreign materials to become national products.

Where do I find the List Rules?

Annex II to Appendix I of the PEM Convention contains the list of working or processing required to be carried out on non-originating materials in order for the product manufactured to obtain originating status.

What are the basic mechanisms applied in List Rules?

There are three basic mechanisms: Change of Tariff Heading; Value Addition; and Specific Processes. (Some List Rules also require products to be Wholly Obtained. This seems like a duplication, but is not – otherwise the General Tolerance Rule would not apply – see Section 2.4 below.)

- **Change of Tariff Heading (short: CTH)**- a product is considered to be sufficiently worked or processed when it is classified in a 4-digit level of the Harmonized System, i.e. heading, which is different from those in which all the non-originating materials used in its manufacture are classified.

Example: HS 9403 – Other furniture and parts thereof

List Rule: 'Manufacture from materials of any heading, except for that of the product'

Materials: Wood (HS 4407), Varnish (HS 3208), Glue (HS 3506)

Result: The product is manufactured from materials classified under other headings than itself, therefore satisfies the List Rule and is a Lebanese product.

- **Value Addition** - the value of all or certain non-originating materials may not exceed a given percentage of the ex-works price of a product.³

Example: HS 3922 – Bath Tub (Plastic)

List Rule: Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product

Value of the product: 300 \$

Value of materials: 100 \$ (polymers in primary forms)

Result: The value of 'non-originating' materials is about 33 % of the value of the product, therefore satisfies the List Rule and is of Lebanese origin.

- **Specific Process** - certain operations or stages in a manufacturing process have to be performed on the non-originating materials. The operations described are the minimum that products must undergo in order to obtain origin. This means that the production process can include more elements than the process described in the List Rule, but not less. This in turn means that the 'working or processing' may start in Lebanon at an earlier stage in the process (i.e. before the steps occur that the rule requires), but not at a later one.

Example: HS 9614 – Smoking pipes and pipe bowls

List Rule: Manufacture from roughly shaped blocks

Process/Result: If the pipe is manufactured from roughly shaped blocks in Lebanon it satisfies the List Rule and is a Lebanese product. If a basic pipe shape has already been carved out of wood and the carving gets finalized by a specialist in Lebanon – even if the process adds much value –, the 'specific process' requirement would not be met, and the pipe would not have Lebanese origin. But if the Lebanese producer buys a tree trunk and cuts a 'roughly shaped' block from it before she or another Lebanese producer takes that block and carves it into a pipe, the rule is satisfied (more steps than the required step – manufacture from roughly shaped blocks – were performed in Lebanon).

- **Combinations** - The List Rules sometimes combine these mechanisms (as well as 'wholly obtained' requirements for some inputs) and require producers to satisfy some or all of them at the same time.

³ The ex-works price is defined as the price paid for the product to the manufacturer or its subcontractor in Lebanon where the product was last worked or processed, including the value of all the materials used, minus any internal taxes which may be repaid when the product obtained is exported. The ex-works price does not include transportation and insurance costs.

Example: HS 2202 - Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices of heading 2009

List Rule with three requirements: (1) Manufacture from materials of any heading except for that of the product; (2) the value of materials of Chapter 17 (sugars and sugar confectionery) is no more than 30% of the ex-works price, and (3) fruit juices used, except for pineapple, lime and grapefruit, are originating.

How to read 'List Rules' – The basics illustrated

As illustrated below, the List Rules in Annex II come in the form of a table with four columns: column 1 provides for the Harmonized System heading, column 2 contains the description of the products falling into the scope of the corresponding HS heading and column 3 and 4 contain the criteria that grants origin to non-originating materials. In most of the cases the criteria is specified in column 3, in case there is an alternative criteria specified in column 4, the exporter may opt for either criteria.

HS heading No	Description of product	Working or processing carried out on non-originating materials that confers originating status	
(1)	(2)	(3)	or (4)
8411	Turbo-jets, turbo-propellers and other gas turbines	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 25% of the ex-works price of the product

Section 4 below contains a large number of examples on the application of List Rules – check them out. You will see: It is quite straightforward in most cases.

2.3.1. The negative exception: 'Insufficient working or processing' – Steps that do not make my product 'Lebanese' (Article 6)

Just as sufficient working or processing confers origin, there is an opposite – 'insufficient working or processing' (also known as 'minimal operations') – which does not make a product Lebanese *even if a List Rule is satisfied*. Some working or processing operations are considered as having such a minor effect on a product that they cannot provide for a 'migration' of 'non-originating' materials to 'originating' status.

The list of such 'insufficient working or processing' in the PEM Convention is exhaustive:

- (a) preserving operations to ensure that the products remain in good condition during transport and storage;
- (b) breaking-up and assembly of packages;
- (c) washing, cleaning, removal of dust, oxide, oil, paint or other coverings;
- (d) ironing or pressing of textiles;
- (e) simple painting and polishing operations;
- (f) husking, partial or total bleaching, polishing, and glazing of cereals and rice;
- (g) operations to colour sugar or form sugar lumps;
- (h) peeling, stoning and shelling, of fruits, nuts and vegetables;
- (i) sharpening, simple grinding or simple cutting;
- (j) sifting, screening, sorting, classifying, grading, matching; (including the making-up of sets of articles);
- (k) simple placing in bottles, cans, flasks, bags, cases, boxes, fixing on cards or boards and all other simple packaging operations;
- (l) affixing or printing marks, labels, logos and other like distinguishing signs on products or their packaging;
- (m) simple mixing of products, whether or not of different kinds;
- (n) mixing of sugar with any material;
- (o) simple assembly of parts of articles to constitute a complete article or disassembly of products into parts;
- (p) a combination of two or more operations specified in (a) to (n);
- (q) slaughter of animals.

Don't be confused: Insufficient working or processing rules of course apply only to non-originating materials. There is no prescription for how much you need to work on local materials – they are already 'originating'!

Examples: *A product made by simple assembly of materials originating in Lebanon will be considered a Lebanese product, although the working operation would seem to fall into the scope of paragraph (o). Mixing Lebanese nuts with Lebanese seeds, no matter how simple the process, will result in a Lebanese mixture. (In fact: What else would it be?)*

2.4. The Positive Exception: General 10% Tolerance (but Watch the Details!) (Article 5.2)

Even if a List Rule does not allow for the use of certain non-originating materials in the manufacture of a product, some of these materials may still be used, provided that their total value does not exceed 10 % of the ex-works price of the product. This is the so-called General Tolerance Rule.

Example: Spicy Ketchup

Ketchup falls under the HH Heading 2103 ('Sauces and preparations therefor; mixed condiments and mixed seasonings...'). The PEM List Rule for this Heading requires 'Manufacture from [non-originating] materials of any heading, except that of the product' – the classical Change of Tariff Heading (CTH) rule.

A Lebanese Company produces a special spicy ketchup from tomatoes and other ingredients (CTH) for export to Switzerland, but wants to use a special soya sauce (same tariff heading as the ketchup!) from Thailand, worth USD 0.40 per litre of finished ketchup. The ketchup sells ex works for USD 5.00.

The ketchup is 'originating' in Lebanon because although the List Rule is not fulfilled, the soya sauce from Thailand accounts only for 8% of the ex works price. The General Tolerance Rule allows for up to 10%.

But an important limitation applies: Where a maximum percentage of foreign ('non-originating') inputs is allowed, the General Tolerance Rule does not apply to increase that percentage. The maximum level will still have to be respected. So if the List Rule requires a maximum of 40% foreign inputs, this is the limit that applies – not 40% + 10% tolerance.

Example: Jewellery

The List Rule for jewellery falling under HS Heading 7116 requires 'Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product.' Here it is not possible to use non-originating materials of up to 60% - the upper limit remains 50%.

A second limitation: The General Tolerance Rule does not apply to textile and clothing products (products of Chapters 50 to 63 of the HS). There are however some specific tolerance rules that apply to these products.

Example: Men's Suit

Men's suits (HS 6202) fall under the Chapter Rule 'ex Chapter 62', which requires 'Manufacture from yarn'. This means that foreign (non-originating) fabric cannot be used at all. A footnote refers to the special tolerance rule for textiles in Section 6 of the Introductory Notes (Annex I to Appendix I) to the List Rules.

A Lebanese producer of extravagant suits wants to use a special fabric from Japan for the back of the jackets. The value is around 9% of the ex works price. Under the General Tolerance Rule this would work – up to 10% would be allowed. But that rule does not apply to textiles and clothing. Instead the special tolerance rule in Section 6.1 of the Introductory Notes applies, which allows for the use of textile materials (except linings and interlinings) only up to 8% of the ex works price. The suits would therefore not acquire Lebanese origin – unless the producer increases the ex works price so that the Japanese fabric's value falls below 8%, or finds a cheaper supplier.

While the General Tolerance Rule often helps, it can sometimes also be challenging for businesses to apply it. The reason for this are changes in prices. If the price of input materials rises, it becomes more difficult to comply with the 10 % tolerance rule. The same applies if market conditions are rough and a business has to reduce its 'ex works' price, which has the effect that the percentage of the value of the foreign inputs increases in relative terms. A possible solution to these challenges would be a tolerance rule expressed in weight rather than in value, where the compliance with rules of origin does not depend on price fluctuations. This is sometimes applied in the List Rules, and a broader application has been proposed by some countries.

2.5. Cumulation and Other Flexibilities – Making Value Chains Work for You

Obtaining Origin 'on the Way' Locally: When inputs acquire origin, they are no longer foreign

List Rules apply only to non-originating materials, i.e., it is only non-originating materials that must be sufficiently worked or processed. If non-originating materials undergo sufficient working or processing, they satisfy List Rules and acquire origin. Once having ‘migrated’ they are no longer foreign, and if they are used as an input in the manufacture of a product, their value is not counted as the value of non-originating materials.

‘Cumulation of Origin’ with other Countries: When working in regional value chains makes it easier to generate ‘originating’ products (Article 3)

Cumulation is a deviation from general rules of origin. Normally, in order to be or become a Lebanese product a product must be either 1) wholly obtained or 2) its foreign inputs must be sufficiently worked or processed in Lebanon. One way of looking at cumulation is that it tweaks the definition of what a ‘non-originating’ input is. The cumulation rule in the PEM Convention allows components that are originating in a PEM Country to be further processed or worked in Lebanon as if these components originated in Lebanon. Both Lebanese products and products originating in countries with which Lebanon applies cumulation are thus treated the same when used as inputs: Both do not need to undergo the same working and processing as other, ‘non-originating’ foreign inputs.

There are two types of cumulation under the PEM Convention: bilateral and diagonal. Bilateral cumulation is applied between two PEM Countries that have an FTA. Diagonal cumulation is applied between three or more PEM Countries that: 1) have FTAs between them, (2) apply identical rules of origin and (3) have duly published notices indicating the fulfilment of the abovementioned requirements.

Therefore, the components imported from another PEM Country do not need to be ‘sufficiently worked or processed’ to acquire Lebanese origin, BUT their working or processing in Lebanon must go beyond the minimal operations OR, if the working or processing does not go beyond the minimal operations, a product can still be a Lebanese product, if the value added in Lebanon is greater than the value of materials imported from the PEM Countries.

Example: Lebanese jewellery maker Azaria produces imitation jewellery (HS 7117).

Goal: export to EFTA countries duty free. Jewellery combines chain necklaces made of base metal parts, not plated or covered with precious metals, with semi-precious stones & other metal applications. The semi-precious stones and metal applications are of Lebanese origin, but in order for the final product to be competitive, the chain necklaces must be imported from: Switzerland (highest price) –57 % of value, Jordan (cheaper than Switzerland) –55 % of value, or China (cheapest) –53.5% of value.

List Rule: The value of non-originating chain necklaces must not be more than 50% of the ex-works price.

Option 1. Import from China – no cumulation.

When exporting to EFTA, inputs of Chinese origin count as non-originating, i.e., not Lebanese.

Use of necklaces from China counts against the 50 % of ex-works price rule.

Result: the product is not a Lebanese product.

Option 2. Import from Switzerland – bilateral cumulation.

When exporting to EFTA countries inputs of Swiss origin count as ‘originating’, i.e., Lebanese, under the bilateral cumulation rule. The use of necklaces from Switzerland

thus will not count against the 50% of ex-works price rule when the final product is exported to EFTA countries.

Result: The product is a Lebanese product. Azaria can produce full sets at competitive prices to be sold to EFTA customers duty free, but may not be competitive in other markets – for example the EU, as long as diagonal cumulation does not (yet) apply.

Option 3. Import from Jordan – diagonal cumulation, once the PEM Convention rules apply.

When exported to EFTA, inputs of Jordanian origin would count as originating, i.e., Lebanese, under diagonal PEM cumulation – once it applies in all the underlying trade agreements (EFTA-Lebanon, Lebanon-Jordan (Agadir), Jordan-EFTA). The necklaces from Jordan will not count against the 50% of ex-works price rule.

Result: the product is a Lebanese product. Azaria can produce full sets at competitive prices to be sold to EFTA, the EU, and other PEM parties duty free, once the PEM rules apply.

2.6. What More Do I Need to Know? (A Few More Rules that May Affect You)

Unit of qualification (Article 7): What is the entity to look at?

The origin of a product is determined based on the so-called ‘unit of qualification’. This is unproblematic if there’s only one product that is clearly separate from others of its own kind: Cars, machines, etc. But what if one ships a container with 100 aluminium chairs? Are they one unit, or rather 100? In other words: Does each chair have to fulfil the rules of origin (here under Chapter 94) individually?

The unit of qualification for the purposes of determining origin is the same basic unit as used for determining the HS classification. That means that there are two cases:

- 1) If an item is composed of a number of components that are classified as one unit in the Harmonized System, then that is the unit to be used in determining origin. This is the case, for example, for ‘writing compendiums’, such as sets of paper and envelopes: These have their own HS Sub-heading HS 4817.30.
- 2) If a consignment consists of a number of identical products classified under the same heading, each product must be considered individually. If packaging is included with the product for classification, it must be included also for the determination of origin.

In our example, hence, each of the 100 chairs individually would have to fulfil the applicable rules of origin. But note: There is an exception for ‘sets’ – see below.

Accessories, spare parts & tools (Article 8): What treatment do accessories, spare parts and tools required for maintenance of a machine receive?

Sometimes equipment or machines are exported together with accessories, spare parts or tools required for its maintenance. In cases where such accessories, spare parts and tools are part of the normal equipment and are included in the price or are not separately invoiced, they are considered as one piece with this equipment or machine.

But that means one has to be careful: Inputs used for them need to satisfy the applicable rules of origin for the main product, for example: The value of special tools and spare parts delivered with an air conditioning unit (HS 8415) would count against the ceiling of a maximum of 40% ‘non-originating’ materials to be used under the List Rule for HS 8415.

What about packaging – does it count?

Yes – as just described in the context of the ‘unit of qualification’: Packaging is usually counted as part of the product for customs purposes, and that means it also has to fulfil the rules of origin. This is no problem as long as Change of Tariff Heading (CTH) or special process rules apply, because the packaging material will usually be classified under a different heading, and have nothing to do with the special process required.

But packaging can be a problem for value-addition rules: Here the value of the packaging material (and the labour and other effort that goes into packaging) counts against the maximum ceilings for foreign inputs.

Sets of goods (Article 9): How is origin determined if different products are exported as a whole – as a set?

Careful when it comes to sets: Here, for once, the rules for general treatment under the Harmonized System and for the determination of origin are *not* fully in synch!

The issue arises only when sets contain goods from different HS Headings that may also have different rules of origin. While HS (in its Explanatory Note 3) provides that sets – under certain strict conditions – are classified together under the classification of the main product (the one that determine’s the set’s character), this does not apply for purposes of PEM rules of origin.

To determine the origin of a set it is necessary to determine the origin of each one of its components. Sets of goods, as a general rule, are considered originating when all the component items making up the set are originating, i.e., each of the products comprising a set shall meet the origin criteria for the heading under which this product is classified. But a special tolerance rule applies to sets: If the set is composed of originating and non-originating products, the set as a whole is considered originating if the value of all the non-originating products taken together does not exceed 15 % of the ex-works price of the set.

Example: Shoes produced in Lebanon and shoe polish from China exported together as a set – both together packaged and ready for retail.

Value of shoes: USD 94.00

Value of shoe polish: USD 6.00

Total value of the set: USD 100.00

Result: the value of non-originating component of the set is less than 15 %, therefore, the set rule is satisfied, and the set is a Lebanese product.

Neutral elements (Article 10): Is it necessary to account for / determine the origin of all physical inputs into the production, for example fuel, machines, tools?

No. Inputs such as fuel, energy, plant, equipment, machines and tools, are explicitly excluded – their origin is irrelevant. The same applies to other *“goods which neither enter into the final composition of the product nor are intended to do so.”* This applies, for example, to catalysers used in chemical processes. A bit like fuel they are physical input products, but they themselves do not end up as part of the product – they only get used, and sometimes used up, in the process.

What about services and IP inputs? (How) do they count?

Services and IP inputs (e.g. designs, transport, cooling, patented processes, etc.) often account for a significant – sometimes overwhelming – part of the value addition to a product during its genesis from raw material to finished product.

However, whether or not services and IPRs themselves are of local or foreign ‘origin’ plays no role for classical rules of origin such as those in the PEM Convention. What matters for origin purposes is where the goods are located when the value-adding processes happen. If the services or IP are added to generate the foreign input materials abroad, their value will be included in the foreign input materials – not matter where the services themselves come from, or whether the IP – for example a foreign patent used under license – is of foreign origin.

The same applies to the ‘sufficient working or processing’ conducted in Lebanon on foreign materials: As long as the physical goods are in Lebanon while the transformation or value addition happens, it does not matter whether foreign services or foreign intellectual property is used in the process. The process in any case counts as performed in Lebanon – as local transformation, as local value-addition.

Moving interim and finished products across borders: The ‘principle of territoriality’, the ‘direct transport rule’ and the prohibition on duty drawback

□ Principle of territoriality (Article 11)

The conditions for acquiring originating status must in principle be fulfilled in a PEM country without interruption. If a product leaves the PEM cumulation territory and then returns, in order to maintain originating status, it shall be proved that the returning product is the same product that left. The returning product shall not experience any operation beyond those necessary to preserve it. However, working or processing is permitted if: 1) materials used for working or processing outside the PEM cumulation territory are originating in the PEM cumulation territory, and 2) the value added outside of the PEM cumulation territory is less than 10 % of the ex-works price of the returning product.

If the general 10 % tolerance rule is applied, the tolerance rule under the principle of territoriality cannot be applied at the same time.

The principle of territoriality does not apply to products of Chapters 50 to 63 of the HS inclusive.

□ Direct transport rule (Article 12)

Products must in principle be transported directly from the country of origin to its export destination to retain its ‘originating’ status. A few flexibilities apply, but the PEM rules do not yet use the more modern general ‘non-manipulation rule’ which the EU and others foresee for their GSP rules of origin.

The reason for applying the direct transport rule is again to ensure that all working and processing is performed in the PEM cumulation territory.

A Lebanese product that is being transported through the territories outside of the PEM cumulation territory, shall meet the following requirements: 1) to remain under the surveillance of the customs authorities in the country of transit or warehousing and 2) not experience operations other than unloading, reloading or any operation designed to preserve it. Documents to be presented to the customs authorities in importing the PEM country: 1) a single transport document covering the whole journey of the product or 2) a certificate from the customs authorities ('certificate of non-manipulation'), stating the facts of the journey of the product and confirming conditions under which the product was in transit, i.e. that it did not experience any working or processing.

To benefit from a preferential treatment, a Lebanese product must either be transported through the territories outside of the PEM cumulation territory without stops, or, if stops occur, be accompanied by a certificate of non-manipulation.

□ **Prohibition of drawback or exemption from customs duties, but exception for 'partial drawback' (Article 14)**

A classical sticking point in rules of origin is the issue of duty drawback.⁴ According to the PEM Convention, Lebanon can neither apply duty drawback to nonoriginating materials used in the manufacture of a product that is meant to claim Lebanese origin under PEM rules nor exempt those materials from customs duties. nonoriginating materials used in the manufacture of a product that is meant to claim Lebanese origin under PEM rule. The reason is simple: If duty drawback were applied, inputs from China, India, Uzbekistan, Brazil or the United States, for example, could enter the PEM area duty free.

But an important exception applies: Partial drawback is permitted, leaving a basic rate of duty in place. Lebanon may, except for products falling within Chapters 1 to 24 of the HS (food and feed products), apply arrangements for drawback of, or exemption from, customs duties, applicable to non-originating materials used in the manufacture of a Lebanese product, as follows:

- Chapters 25 to 49 and 64 to 97 of the HS - 4 % rate, or lower rate, if in force, of customs charge shall be retained;
- Chapters 50 to 63 of the HS (textile and clothing) - 8 % rate, or lower rate, if in force, of customs charge shall be retained.

What if I'm not sure? Getting a 'Binding Origin Information' (BOI)

Importing countries often provide the possibility to get a binding assessment of the origin of products before they are actually exported there. This helps producers and traders to assess costs and set prices by clarifying, for example, whether or not their products qualify for preferential tariff treatment based on applicable rules of origin.

⁴ Duty drawback is a situation where the exporter is paid back customs duties previously paid on imported materials used for the manufacture of an exported product.

In the EU, for example, the “Binding Origin Information (BOI)” is a Community-wide system which enables traders to obtain a decision from an EU Member State on the origin of their goods. The decision is then legally binding throughout the EU.⁵ There is no obligation to obtain a BOI. Rather, the BOI system is available as an option for traders who wish to have the origin of their goods clarified.

⁵ BOI decisions are issued upon request by the customs administrations of the Member States. The legislative bases for these decisions are contained in Council Regulation (EEC) No. 2913/92 and Commission Regulation (EEC) No. 2454/93.

The Harmonized System: A Few Essentials

What is the Harmonized System? The Harmonized System (“HS”) is an international nomenclature for the classification of products on a common basis managed by the World Customs Organization (WCO). It is periodically revised. The currently applicable set of rules is HS 2012. The HS Convention is ratified by 153 countries, but the HS is actually applied by 207 countries.

Where to find the HS online?

You find the HS on the WCO website. The full HS 2012 is here:

<http://www.wcoomd.org/en/faq/~link.aspx?id=3F9BB5F791484D45810FE0A5B9782E4C&z=z>

Can I search by keyword or by using an HS code number?

- <http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs-online.aspx>
- <http://www.foreign-trade.com/reference/hscodet.htm>

Are there smartphone apps?

Yes. One app for iPhones, for example is this: <http://www.hscodehandbook.com>

Are there online services that help classifying goods?

Yes, but they are not for free. One example would be this: <http://www.customsiq.com/ciq/solution.cfm>

What is the basic structure of the HS?

The HS is designed as a hierarchical system – easy to use if you know how to look for things:

Sections – a type of a product. (Example: Section XI – *Textiles and Textile Articles*)

Chapters (2 digits) – a broad description of a product (Example: Chapter 62 – *Articles of Apparel and Clothing Accessories, not Knitted and Crocheted*)

Headings (4 digits) – a more specific description of a product (Example: Heading 6205 – *Men’s or boys’ shirts*)

Subheadings (6 digits) – a very specific description of a product (Example: Subheading 6205.20 – *Of cotton*)

Products are classified by 6 digits, the first 2 digits indicate the Chapter, the 4 digits indicate the heading, the 6 digits indicate the subheading. For example, HS code 2843.30, where 28 is a Chapter ‘*Organic and inorganic compounds of precious metals*’, 2843 is a heading ‘*Colloidal precious metals; inorganic or organic compounds of precious metals; amalgams*’, 2843.30 is a subheading ‘*Gold compounds*’.

What are “ex-outs”?

‘Ex-out’ refers to the situation when a reference is made only to a specified product or group of products covered by a particular HS code (Chapter, Heading or Subheading), rather than all products covered by this HS code. Adding the prefix ‘ex’ before the HS code indicates that not all products classified under the HS code are included, i.e., that the product at issue is only one among others classified under the same HS code. Whenever one encounters an ‘ex out’ it is particularly important to consider carefully the description of the product(s) referred to, *together* with the HS description of the Chapter, Heading or Subheading concerned. Neither one alone will give you the full picture.

3. Before We Look at Specific Products: An Informal PEM Origin Checklist for Producers and Exporters

First Check: Should I worry about the ‘origin’ of my product at all?

- Remember: **‘Originating’ status can have two advantages:** Lower or zero duties for your products when exported, and/or lower or zero duties for your customer’s final product when exported to another country. There is no general obligation to produce ‘originating’ products. If you don’t need the advantages of ‘origin’, you don’t have to worry about the rules.
- That means: **You should care about ‘originating’ status for your product**
 - **If you plan to export the product; AND**
 - **If the normal customs duty in the export market is higher than the preferential rate** you can get under your country’s trade agreement with the importing country, for example, the EU-Lebanon Association Agreement; **OR**
 - **If your customer cares because he wants to ensure better duty rates for his products.** Keep in mind that your customer may plan to use your product as input into his products. If he needs his products to be ‘originating’ to get preferential duty rates in his export markets, he may need your products to be ‘originating’ as well to apply cumulation rules. So: Even if duty rates for your product are low and would not justify the effort for you to adjust production, check with your customer before you drop the effort!
- It also means: **Don’t worry about origin if the relevant customs duties for your own products and those of your customer are zero anyway.** If they are not zero but very low, check whether compliance is more expensive than paying the duty.

Second: If your product is clearly ‘wholly obtained’, think no further

- It will often be rather clear that your product is a local one: If you export fruits that grow on trees in your country, animals that are born and raised in your country, or

Recalled: Three tools you need to have handy

Harmonized System (HS): The rules often depend on what specific product we’re talking about. Its classification in the HS determines which “List Rule” applies. Often we also need to know where the input products are classified in the HS – otherwise we will not know whether there was a Change of Tariff Heading (CTH). The HS is freely available online or – the easiest! – as a smart phone app! Sometimes you may need to read the introductory notes for a chapter, but otherwise it’s not very complicated – try it out, in nine out of ten cases you’ll find that you can classify your products and inputs quite easily.

The List Rules: Once you know your product’s HS Heading, the List Rules themselves will often tell you what applies. But be a little bit careful: Make sure that you apply a special rule only when your product is captured by it. Otherwise the Chapter Rule applies. Watch out for the introductory notes – sometimes they provide the key to a solution.

The General Rules: Make sure you have at least an overview of the general rules (this manual provides you with that). In particular: Keep an eye on ‘wholly obtained’ (if yes, don’t worry about anything else), ‘insufficient working and processing’ (if yes, no List Rule will help you) and the General Tolerance Rule (up to 10% is often OK, except for textiles & clothing).

minerals that are extracted from the soil of your country, these are in any case ‘originating’, because they are ‘wholly obtained’. There’s no need to dig any deeper.

- The same applies if you only use such local, ‘wholly obtained’ products – for example pure juice from locally grown apples, furniture from locally grown wood, earrings from locally extracted gold.
- Sometimes it may not be so clear, however – What about meat from cows that were raised and slaughtered in the country but had been imported as newborn calves? What about fish caught by your fishermen on the high seas or in the territorial waters of a neighbouring country? In cases like these make sure to look closely at the rule on ‘wholly obtained’ products – here: Article 4 of the PEM Convention’s Appendix (see above)!

Third: If you use any foreign input materials check if you need to apply the ‘List Rule’ that applies specifically to your product. But even before that you may first want to check whether one of the two exceptions apply – “Insufficient Working or Processing” and the “General Tolerance Rule”.

- **First check the negative exception: Is the process performed in my country only a minimal operation (‘insufficient working or processing’) that would never confer origin, no matter how much it adds value?** This could be simple mixing, cooling, breaking of bulk done with foreign input materials etc. If you think this may be the case, check the rule in Article 6 of the PEM Protocol of Origin. If the operation does not go beyond ‘insufficient working and processing’, your output product does not acquire origin no matter what the product-specific ‘List Rule’ says. But remember: What counts in the end is not what you alone do, but your own operation *and all other steps that happen in your country taken together*. So if others are involved and more production steps are involved, take a closer look – your own operation may be part of a process that *does* confer origin. Also note: Even if you only perform such minimal operations, your product may still be ‘originating’ from the original country of production of your inputs if it’s still the same product (e.g bulk cement broken down into cement bags). If that country enjoys the same or similar privileges under a trade agreement, you may still benefit from the same privileges when you export your product.
- **Second, check the positive exception – Are all foreign inputs worth only 10% or less of the ex works price of my export product?** If yes, you will usually benefit from the ‘general tolerance rule’. This means that your product is deemed to be locally produced (‘originating’) no matter what the applicable ‘List Rule’ says. For example, the List Rule for ‘preparations of vegetables, fruit, nuts or other parts of plants (HS Chapter 20) says that all (foreign) fruits, vegetables or nuts used must be wholly obtained (i.e. harvested in the country). The general 10% tolerance rule means that you can still use foreign fruits, vegetables or nuts if they are worth not more than 10% of your ex works price. But watch out for two ‘exceptions from the exception’: The general tolerance rule does not apply to textiles and clothing (HS Chapters 50-63). It also doesn’t allow you to go beyond percentages in the List Rules themselves. For example, if the List rule allows you to use up to 50% of foreign input in terms of value, you cannot go up to 60%, claiming another 10% under the General Tolerance Rule.
- **Third, apply the product-specific ‘List Rule’ – step by step! Make sure to apply ‘cumulation’ where it fits: inputs from cumulation partner countries count as ‘originating’, just like local inputs.**

- **Four basic mechanisms (sometimes variations), alone or in combination:**
 - i. Wholly Obtained (not really a List Rule, but you find it in the lists, and where it applies, the General Tolerance Rule can help you!)
 - ii. Change of Tariff Heading (CTH)
 - iii. Value Addition (maximum value share of foreign – ‘non-originating’ – inputs)
 - iv. Specific Processing
- **Two exceptions**
 - v. Permissive: General Tolerance Rule (10% non-originating inputs, but beware of limitations)
 - vi. *(If you haven’t checked already)* Restrictive: Minimal operations (“insufficient working or processing”) excluded *even if the list rule is satisfied*

(e.g.
when
value
addition)

Box: Reading List Rules: A Quick Guide

Can I just go to the List Rules and look for my product?

Yes, you can, and if you do find your product clearly and understand which rule applies, all the better.

Often, however, your product itself may not be explicitly mentioned. If that is the case you have to check more closely, and the List Rules alone will not help. You will need to look at the Harmonized System (HS) itself (see Box above on how to do that - it’s in most cases now quite easy, as online tools and apps have made the HS fully searchable). There you will see where exactly your product belongs.

Make sure you get at least the 4-digit Heading right, but sometimes you will only be able to be sure once you go down to the level of 6 digits (HS Subheadings) - there many products are more clearly described. If you know the 6-digit classification, you of course also know the 4-digit Heading.

Then go back to the List Rules and check again: do the List Rules contain a special rule for your product’s Heading? If so, apply it. If not, apply the Chapter Rule, which is the default rule indicated at the beginning of the Chapter section in the List.

What does “ex4818” mean?

Sometimes the List Rules contain a special rule for just some, but not all products covered by a particular HS Heading. In this case the List Rules say “ex4818” or “ex4415” (these are called “ex-outs”). If this concerns your product’s Heading you have to check more closely the description of the product in the List Rules (2nd column). If it covers your product, apply the special rule there. If not, this special rule does not concern your product. The general Chapter Rule applies. For example, the stricter rule for “ex4818” applies only to toilet paper, but not facial tissue which also falls under 4818. For facial tissue the (easier) general Chapter Rule applies.

What’s the difference between “Chapter 46” and “ex Chapter 48”?

A quick word of clarification on the general Chapter Rules: these sometimes identify just the 2-digit Chapter number as such (Chapter 46), sometimes with an “ex” before it. Don’t be confused - it’s easily explained: If only one rule applies to the entire Chapter and there are no special rules for specific products, the rule reads e.g. “Chapter 47” followed by the HS description for the chapter.

If however there are special rules that apply to some products in a Chapter, these rules are listed below the first Chapter Rule. That Chapter Rule thus logically does not apply to all products in the Chapter, but only to those which do not have their own special rule. This is why the Chapter Rule is identified as, e.g., “ex Chapter 48” and the description uses the HS description for the Chapter, followed by “, except for:”, followed then by the special rules for specific products from that Chapter.

4. Making the Rules Work for Lebanese Export Businesses: Key Products and Sectors in Examples and Exercises

Reading v. Exercising: How to Use this Section

This section in particular is designed as both information and training material. The following product/sectoral sections are largely self-contained and can be read in isolation from others. Key aspects and concepts are therefore repeated in each section.

Product-specific “List Rules” are in many cases reproduced in their original wording, often in their original form (as a table), to provide the user with a clear idea of the original and to facilitate the work with the examples. However, not all general provisions and List Rules — can usefully be reflected in this manual’s body or annexes. Readers are however strongly encouraged to consult the full set of rules, i.e. the full text of the PEM Convention wherever possible. This will greatly help ‘demystify’ the rules, which often are easier to understand than expected. Using a full printout as a reference document may be the most convenient and effective approach.

The examples at the end of each sectoral section are designed as exercises. Readers who wish to use them as such are encouraged to read first only the sub-section “The Situation”, which defines the task, and then try to answer the questions posed based on the rules before reading the sub-section “The Analysis”. The examples, however, can of course also simply be read as such.

4.1. Plastics

A Word of Caution: Some Rules May Change

The point of this manual and this section is to make users familiar with how the main concepts and key mechanics work. The descriptions, examples and exercises below are based on the rules as they stand at the time of drafting. Users should keep in mind that negotiations are taking place to amend the PEM Convention. Some rules may thus change, which of course might affect the result of some examples/exercises.

4.1.1. What’s special?

- “Plastics” are everywhere in our lives. More than other materials, plastics can be formed into whatever shape we need. This quality has an impact on the rules of origin, which are dominated by (pure) value-addition.
- The Harmonized System defines plastics as *“those materials of headings 39.01 to 39.14 which are or have been capable, either at the moment of polymerisation or at some subsequent stage, of being formed under external influence (usually heat and pressure, if necessary with a solvent or plasticiser) by moulding, casting, extruding, rolling or other process into shapes which are retained on the removal of the external influence.”*
- Plastics in primary form and most basic articles of plastics are covered by a single HS Chapter – Chapter 39 (“Plastics and articles thereof”).
- For most of these products various value-addition rules apply, in some cases two in combination: A general value-addition rule (50% foreign inputs) and within that another, setting a maximum for inputs from Chapter 39.

- For selected few products a special process requirement applies, usually with a simple value-addition rule as an alternative.
- Products made from plastic are also found in other Chapters, depending on their function. Plastic furniture, for example, is found in Chapter 94.

4.1.2. What are the main rules to keep in mind?

(1) Main Rules in Chapter 39

- There is no single (default) Chapter Rule for HS Chapter 39 because for this Chapter a different List Rule exists for every single product belonging to the Chapter. Like a few others this Chapter therefore does not need a general Chapter Rule.
- The List Rules for semi-manufactures and articles of plastics, reaching from tubes to floor coverings to lavatory seats to boxes to shutters to kitchen ware to office and school supplies – are the following (leaving aside plastics in primary forms (HS 3901-3915)):

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)

3916 to 3921	Semi-manufactures and articles of plastics; except for headings ex3916, ex3917, ex3920 and ex3921, for which the rules are set out below: - Flat products, further worked than only surface-worked or cut into forms other than rectangular (including square); other products, further worked than only surface-worked - Other --Addition homopolymerisation products in which a single monomer contributes more than 99 % by weight to the total polymer content -- Other	Manufacture in which the value of all the <i>[non-originating]</i> materials of Chapter 39 used does not exceed 50 % of the ex-works price of the product Manufacture in which: - the value of all the <i>[non-originating]</i> materials used does not exceed 50 % of the ex-works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of Chapter 39 used does not exceed 20 % of the ex-works price of the product ⁽⁵⁾ Manufacture in which the value of all the <i>[non-originating]</i> materials of Chapter 39 used does not exceed 20 % of the ex-works price of the product ⁽⁵⁾ ⁽⁵⁾ (In the case of the products composed of materials classified within both headings 3901 to 3906, on the one hand, and within heading 3907 to 3911, on the other hand, this restriction only applies to that group of materials which predominates by weight in the product)	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 25 % of the ex-works price of the product Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 25 % of the ex-works price of the product Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 25 % of the ex-works price of the product
ex3916 and ex 3917	Profile shapes and tubes	Manufacture in which: - the value of all the <i>[non-originating]</i> materials used does not exceed 50 % of the ex-works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of the same heading of the product does not exceed 20 % of the ex-works price of the product	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 25 % of the ex-works price of the product

ex3920	- Ionomer sheet or film	Manufacture from a thermoplastic partial salt (...)	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 25 % of the ex-works price of the product
(...)			
3922 to 3926	Articles of plastics	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 50 % of the ex-works price of the product	

-

(2) List Rules for other Plastic Products

- List Rules for some other products made from plastic are spread out, depending on the function of the product.
- Many however are relatively easily found and applied: Plastic flowers, for example, fall under HS 6702.10. The Chapter Rule for Chapter 67 ('Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair') applies, which reads "Manufacture from materials of any heading, except that of the product" – in other words: a simple CTH rule. This means that manufacture in Lebanon of plastic flowers from (non-originating) plastic in whatever form – as long as it is not classified under the same heading – produces plastic flowers of Lebanese origin. The same simple CTH rule applies to plastic furniture (HS 9403) and most plastic toys (9503).

4.1.3. What are the main issues to watch out for?

- Most rules for plastic products within HS Chapter 39 apply one or several value-addition criteria.
- Sometimes, however, the identification of the right rule requires a detailed understanding of the chemistry involved – you may need to know, for example, whether your product is the result of 'addition hyperpolymerisation' or whether it is a "ionomer" sheet or film or rather another plastic sheet or film.

4.1.4. Examples/Exercises

Reminder: The Basic Mechanics

1. Check whether origin matters for your business – is there a tariff preference you or your customer are planning to use? If yes:
2. Check whether the product is “wholly obtained” in Lebanon. If not:
3. Check the HS heading and apply the List Rules. Make sure to apply ‘cumulation’ where it fits: inputs from cumulation partner countries count as ‘originating’, just like local inputs.
 - a. Four basic mechanisms (sometimes variations), alone or in combination:
 - i. Wholly Obtained (not really a List Rule, but you find it in the lists, and where it applies, the General Tolerance Rule can help you!)
 - ii. Change of Tariff Heading (CTH)
 - iii. Value Addition (maximum value share of foreign – ‘non-originating’ – inputs
 - iv. Specific Processing
 - b. Two exceptions
 - i. Permissive: General Tolerance Rule (10% non-originating inputs, but beware of limitations)
 - ii. Restrictive: Minimal operations (“insufficient working or processing”) excluded *even if the list rule is satisfied* (e.g. when value addition)

Example 1. Polyethylene Tubes

The Situation

PolymersLebanon produces high-density polyethylene tubes for export to the EU. The input materials are:

Materials used:	Origin:	HS:	Value:
Polyethylene chips, recycled from polyethylene tubes (shredded)	Japan	3901	USD 30.00 per unit
Polyethylene	Lebanon	3901	USD 25.00 per unit

The ex-works price is USD 100 per unit. Will the tubes obtain ‘originating’ status?

The Analysis

- The product is not wholly obtained.
- The final product – plastic tubes – falls under HS 3917.21.
- Because the product is a ‘tube’, the List Rule “ex3916 and ex3917” for “profile shapes and tubes” applies. The rule looks as follows:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status
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(1)	(2)	(3)	(4)
ex3916 and ex 3917	Profile shapes and tubes	Manufacture in which: - the value of all the <i>[non-originating]</i> materials used does not exceed 50 % of the ex- works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of the same heading of the product does not exceed 20 % of the ex-works price of the product	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 25 % of the ex-works price of the product

- The first alternative – in column (3) – is thus a combined value-addition rule. The first requirement is met: While the total polyethylene inputs account for 55% (USD 55 out of USD 100) of the ex-works price, the polyethylene from Japan accounts for only 30% of the ex-works price. (The polyethylene from Lebanon of course does not count against the maximum percentage. The List Rule requirements only concern working and processing to be performed on non-originating products if these get included into the relevant final products whose origin status is in question.)
- But what about the second requirement? The rule further requires that non-originating products from the same heading can only account for a maximum of 20% of the ex-works price. The Japanese inputs consist of chips derived from recycled polyethylene tubes, which originally fell under HS 3917, like the final product here. Does this trigger the 20% rule?
- The answer is no. The products have in the meantime – in fact: apparently already in Japan – been transformed back into raw material covered by HS 3901. This means that the chips no longer fall under HS 3917, and hence do not count against the 20% rule.
- The List Rule is thus satisfied. The tubes have Lebanese origin under the PEM convention rules (and already now under the largely identical rules of origin in the EU-Lebanon Association Agreement).

Example 2. Plastic Flowers

The Situation

BetterThanNatureNeverguessin Tripoli produces interior decorations, including high-quality plastic flowers, for export to EFTA and EU countries. The input materials for the flowers are:

Materials used:	Origin:	HS:	Value:
Polyethylene terephthalate	China	3907.60	USD 2.00 per unit
Polyethylene terephthalate	Taiwan	3907.60	USD 1.00 per unit

Are the flowers Lebanese products? How does the ex-works price of the flowers matter?

The Analysis

- The product is not wholly obtained.
- The final product – plastic flowers – falls under HS 6702.10.
- The applicable List Rule is the general Chapter Rule (Chapter 67) because no special rule applies to this product. The Chapter Rule is the standard CTH rule: *“Manufacture from [non-originating] materials of any heading, except that of the product.”*
- Here the input materials are classified in a different HS (3907.60) than the final product (6702.10). The CTH rule is satisfied, therefore the flowers obtain ‘originating status’.
- The ex-works price of the flowers plays no role here. The Chapter Rule for Chapter 67 does not contain any other condition than CTH to be met (e.g., value added). As long as the flowers are produced from [non-originating] materials which are classified under any heading except for HS 6207, they will be a ‘Lebanese product’. This applies independently of the amount of value addition, and hence independently of ex-works price.

Example 3. 3-D Jigsaw Puzzles (Made of Plastic)

The Situation

JigsawBeirut, a manufacturer in Beirut, produces 3-D jigsaw puzzles for export to the EU from the following foreign inputs:

Materials used:	Origin:	HS:	Value:
Polyvinyl chloride (plasticized)	Portugal	3904.22	USD 4.00 per unit
Polyvinyl chloride (plasticized)	Egypt	3904.22	USD 6.00 per unit
Polyvinyl chloride (plasticized)	USA	3904.22	USD 6.00 per unit

At an ex-works price of USD 20.00 per unit: Will the puzzle obtain “originating status”?

The Analysis

- The product is classified under HS 9503. It is not wholly obtained.
- The applicable List Rule is ex9503, as the description refers explicitly to “puzzles of all kinds:”

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)

ex9503	Other toys; reduced-size ('scale') models and similar recreational models, working or not; puzzles of all kinds	Manufacture in which: - from materials of any heading, except that of the product, and - in which the value of all the [non-originating] materials used does not exceed 50 % of the ex-works price of the product	
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- The rule thus consists of two conditions: Manufacture (1) from [non-originating] materials of any heading, except that of the product, (2) in which the value of all the [non-originating] materials used do not exceed 50% of the ex-works price of the product.
- The first condition, CTH, is satisfied because the input materials are classified in a different HS Heading (3904.22) than the final product (9503).
- The total value of foreign inputs here accounts for USD 16.00. This is equivalent to 80% of the final ex-works price of USD 20.00. This is a lot higher than the value addition rule (maximum 50% 'non-originating' materials) allows.
- However, under PEM rules *cumulation* will apply with both Portugal (member of the EU) and Egypt. In that case the polyvinyl chloride from Portugal and Egypt would be treated as 'originating' inputs. That means that the only 'non-originating' input will be the input from the USA with the value of USD 6.0 per unit, which is 30 %. With PEM cumulation the value addition rule will be satisfied.
- What is the situation prior to the application of PEM rules? Currently only bilateral cumulation applies under the Lebanon-EU Association Agreement. This means that the inputs from Portugal would qualify, but not those from Egypt. In this case that would mean that still 60% of inputs are 'non-originating'. The product would thus not acquire Lebanese origin.

Example 4. Plastic Tables

The Situation

Plastique du Liban, a company based in Tyre, produces nice garden and camping tables from plastic. It exports these products to EFTA countries, to the EU, and to Morocco and Tunisia. The company would like to do more of that in the future. Its foreign inputs:

Materials used:	Origin:	HS:	Value:
Parts of plastic tables	Italy	9403.90	USD 3.00 per table
Parts of plastic tables	China	9403.90	USD 1.80 per table

The company further uses plastic waste collected in Lebanon as raw material inputs. The value is USD 1.60 per table. *Plastique du Liban* knows that most of the discarded products collected by a specialized recycling company stem from originally imported plastic products.

The ex-works price is of USD 10.00 per table: Will the tables obtain “originating status”? What would be different, if anything, if the product in question were a toy table for dolls in a doll house?

The Analysis

- The tables are not ‘wholly obtained’.
- They are covered by the HS Heading 9403.70 (“Furniture of plastics”). Because the tables are not from metal but from plastic, the specific List Rule “ex9401 and ex9403” for “base metal furniture, incorporating unstuffed cotton cloth...” does not apply to them. Instead the general Chapter Rule “ex Chapter 94” applies. That rule reads:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex Chapter 94	Furniture; bedding; mattresses; mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified and included; illuminated signs, illuminated name-plates and the like; prefabricated buildings; except for [four product specific rules follow]	Manufacture from [non-originating] materials of any heading, except that of the product	Manufacture in which the value of all the [non-originating] materials used does not exceed 40 % of the ex-works price of the product

- The first alternative rule (in Column (3)) is the standard CTH rule: “*Manufacture from materials of any heading, except that of the product.*” Here the input parts from China and Italy fall under the same heading as the finished product, the garden tables – HS 9403. The rule is not satisfied, the tables – so far – are not Lebanese.
- However, the second alternative rule (in Column (4)) may help. The parts from China account for 18%, the parts from Italy for another 30% of the final product in terms of value, together 48%. However, under PEM rules diagonal cumulation will apply. This means that there will be *cumulation* with Italy for exports to the EU, to EFTA countries and to countries of the Agadir Group, including Morocco and Tunisia. The parts from Italy would thus be counted as ‘originating’ and hence no longer count against the maximum value of 40%. This would make the product in any case Lebanese.
- Even without the PEM Convention *bilateral cumulation* already today applies between Lebanon and the EU. This means that the tables when imported into the EU will be treated as Lebanese (‘originating’) products.
- But what about the recycled plastic waste collected in Lebanon? Does it matter that it stems originally from imported products? No, it doesn’t. In fact, the material counts as ‘wholly obtained’ in Lebanon. Article 4 (h) provides that “*used articles collected there fit only for the*

recovery of raw materials...” shall be considered as wholly obtained in the respective country, here Lebanon. The prior origin of the goods does not matter.

Example 5. Packet of Disposable Plastic Forks

The Situation

Plastique du Liban also produces disposable plastic forks for the local market and for export to European countries.

Materials used:	Origin:	HS:	Value:
Polystyrene polymers	Belgium	3903	USD 0.20 per pack
Polypropylene polymers	Saudi Arabia	3902	USD 0.30 per pack

The ex-works price is USD 0.80 per pack: Will the packet of plastic forks obtain ‘originating product’ status?

The Analysis

- The forks are not ‘wholly obtained’.
- They fall under HS 3924.10. The List Rule for HS 3922 to 3926 applies: *“Manufacture in which the value of all the [non-originating] materials used does not exceed 50% of the ex-works price of the product.”* In other words: simple value-addition (50%).
- Here the inputs from Belgium account for 25%, and those from Saudi Arabia for 37.5%. Without cumulation the rule is not satisfied. With *PEM cumulation* the Belgian inputs will count as ‘originating’ within PEM countries. This will mean that for all exports to EFTA, the EU, Turkey or other PEM participants with whom Lebanon has an FTA, the plastic forks will qualify as Lebanese products.
- Already today, bilateral cumulation with the EU applies. That means that for purposes of exports to the EU the forks already now count as Lebanese products (because the Belgian inputs would not count as ‘originating’ and hence only leave the Saudi inputs as foreign, ‘non’), but not when exported to Switzerland or other EFTA countries, for example. This situation would be reversed if the inputs came from an EFTA country instead of Belgium.

Example 6. Plastic Necklace

The Situation

The company *FlashFashion* in Beirut produces fashion accessories, such as plastic necklaces. The following materials are used:

Materials used:	Origin:	HS:	Value:
Bakelite	Korea	3904.90	USD 5.00 per necklace

The ex-works price is USD 8.00 per necklace: Will the necklace obtain ‘originating’ product status?

The Analysis

- The product falls under HS 7117.90.
- It is not wholly obtained.
- The applicable List Rule is the HS 7117 rule (“imitation jewellery”) which contains two alternative conditions to be met: manufacture from [non-originating] materials of any heading, except that of the product, or manufacture from base metal parts, not plated or covered with precious metals, provided that the value of all the [non-originating] materials used do not exceed 50% of the ex-works price of the product.
- The first alternative rule, the standard CTH rule, is satisfied, as the input Bakelite is classified under HS 3904.
- The second alternative is a qualified value addition rule. The value of ‘non-originating’ materials here is USD 5.00, which constitutes 60 % of the ex-works price of the product. The value-addition rule is in any case not satisfied – apart from the fact that the necklace does not seem to qualify in the first place because it is not manufactured from base metal parts.
- Since the CTH rule is satisfied, the product will obtain ‘originating status’.

4.2. Aluminium

A Word of Caution: Some Rules May Change

The point of this manual and this section is to make users familiar with how the main concepts and key mechanics work. The descriptions, examples and exercises below are based on the rules as they stand at the time of drafting. Users should keep in mind that negotiations are taking place to amend the PEM Convention. Some rules may thus change, which of course might affect the result of some examples/exercises.

4.2.1. What's special?

- Aluminium is one of the materials – like iron, copper or lead – from which a great number of different products are derived.
- Many of these products are reflected in a single HS chapter, namely Chapter 76 titled “Aluminium and articles thereof”. Under the PEM Convention only a handful of “List Rules” apply to products from this chapter, making it relatively easy for businesses to apply them. That said, some of the rules are a bit tricky – this is explored in the examples below.
- Products consisting entirely or partly of aluminium are also found in other chapters, classified there because of their function. For example, aluminium furniture belongs to HS Chapter 94 (“Furniture; bedding; mattresses; ...”), and aluminium bikes fall under HS Chapter 87 (“Vehicles other than railway or tramway rolling stock; ...”).

4.2.2. What are the main rules to keep in mind?

(1) Main Chapter Rule (Default Rule)

- The main Chapter Rule for HS Chapter 76 (“Aluminium and articles thereof”) - that is: the default rule for products for which there is no special rule – looks as follows:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex Chapter 76	Aluminium and articles thereof; except for: <i>[3 special rules follow, see below]</i>	Manufacture: - from <i>[non-originating]</i> materials of any heading, except that of the product - in which the value of all the <i>[non-originating]</i> materials used does not exceed 50% of the ex-works price of the product	

-
- This means: Unless a special rule applies (see below), aluminium products are ‘originating’ if two conditions apply: First, all ‘non-originating’ inputs (that is: foreign inputs from countries with which there is no cumulation of origin) fall under a different HS heading than the product itself. Second, those ‘non-originating’ inputs also account for not more than 50% of the final value – the ex-works price – of the product.
- Important: Both conditions apply together (cumulatively), that means: both must be satisfied at the same time.

(2) Other Product-Specific Rules in Chapter 76

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
7601	Unwrought aluminium	Manufacture: - from <i>[non-originating]</i> materials of any heading, except that of the product - in which the value of all the <i>[non-originating]</i> materials used does not exceed 50% of the ex-works price of the product or Manufacture by thermal or electrolytic treatment from unalloyed aluminium or waste and scrap of aluminium	
7602	Aluminium waste or scrap	Manufacture from materials of any heading, except that of the product	
ex7616	Aluminium articles other than gauze, cloth, grill, netting, fencing, reinforcing fabric and similar materials (including endless bands) of aluminium wire, and expanded metal of aluminium	Manufacture: - from <i>[non-originating]</i> materials of any heading, except that of the product. However, gauze, cloth, grill, netting, fencing, reinforcing fabric and similar materials (including endless bands) of aluminium wire, or expanded metal of aluminium may be used - in which the value of all the <i>[non-originating]</i> materials used does not exceed 50% of the ex-works price of the product <i>(italics: explanatory addition; bold: highlighting added, text original)</i>	

- This means: for “unwrought aluminium” falling under HS 7601 (this is, unworked aluminium in unspecified form, including basic aluminium ingots) the normal Chapter Rule applies – see above. *Alternatively* – as a second, alternative option for gaining origin – a specific process can be applied: “*Manufacture by thermal or electrolytic treatment from unalloyed aluminium or waste and scrap of aluminium.*” If that process is used, the conditions under the normal rule do not apply, so the inputs can come from the same HS Heading (7601) – this would be the case for raw unalloyed aluminium, for example. It also doesn’t matter

what the value of the (foreign, ‘non-originating’) input materials is, as long as the specific process is used to produce the final product. This alternative is an important relaxation of the basic rule – ‘thermal or electrolytic treatment’ is what most companies that produce basic ingots of aluminium would apply. In other words: the producers of aluminium ingots will usually easily satisfy the rule.

- For “Aluminium waste or scrap” (HS 7602): This can be produced (derived) from any foreign material, for example foreign-produced aluminium bikes, window frames or wire nets, as long as it is not already imported as “waste or scrap.” Note that the ‘insufficient working or processing’ exception puts limits on how simple the ‘working and processing’ can be.
- The rule for HS 7616, which captures a number of products, looks rather complicated, but a closer look reveals its rather straightforward meaning. The rule applies only to some products falling under the heading, namely those that are *not* “gauze, grill, netting...of aluminium wire”, and not ‘expanded metal of aluminium. This means it applies in particular to those products that are classified under HS Sub-heading 7616.91: “Nails, tacks, staples (other than those falling under HS 8305⁶), screws...” etc. These products can be made from ‘non-originating’ “gauze, grill, netting...” etc. even though these fall under the same heading. Otherwise the basic Chapter Rule applies: The foreign (‘non-originating’) materials must not account for more than 50% of the value.

(3) List Rules for other Products Made from Aluminium

- List Rules for some other products made from aluminium are spread out, depending on the function of the product.
- Many however are relatively easy:
 - Paper staples in strips, for example, fall under HS 8305 (“Miscellaneous articles of base metals”). The Chapter Rule for Chapter 83 applies, which reads “Manufacture from materials of any heading, except that of the product” – in other words: a simple CTH rule. This means that manufacture from (foreign) aluminium in whatever form – as long as it is not already a paper clip or something similar – is OK.
 - The same simple CTH rule applies to aluminium furniture under HS Chapter 94 (except if it incorporates thin cotton cloth, then a special rule applies).
 - Aluminium bicycles, classified in HS Chapter 87 (“vehicles other than railway or tramway rolling stock...”) acquire ‘originating’ status if foreign (‘non-originating’) inputs do not exceed 40% of the ex-works price – a straightforward value addition rule.
- Some are a bit more complex. For example, an aluminium baby carriage, or parts for such a carriage (HS 8715), would have to satisfy both the CTH rule and the value-addition rule (foreign inputs not exceeding 40% of the ex-works price).

4.2.3. What are the main issues to watch out for?

⁶ These are, for example, staples in strips to staple paper, upholstery or packaging.

- For most basic aluminium products a simple CTH rule applies, but combined with a value addition rule (50%) – so the local value addition in your country needs to be significant, a simple change of tariff heading will usually not be enough.
- Two important exceptions apply: For “unwrought aluminium” products produced through thermal or electrolytic treatment – e.g. smelters – no other conditions apply – they automatically acquire origin. And for aluminium scrap or waste only the CTH rule applies. That means that as long as the inputs are not already imported as scrap or waste, the locally aluminium produced (collected) scrap or waste is of Lebanese origin, no matter what the value of the inputs is.
- Watch out for products made from aluminium that are classified elsewhere, not in Chapter 76. Special rules apply to these – in many cases, however, these are not overly restrictive.

4.2.4. Examples/Exercises

Reminder: The Basic Mechanics

1. Check whether origin matters for your business – is there a tariff preference you or your customer are planning to use? If yes:
2. Check whether the product is “wholly obtained” in Lebanon. If not:
3. Check the HS heading and apply the List Rules. Make sure to apply ‘cumulation’ where it fits: inputs from cumulation partner countries count as ‘originating’, just like local inputs.
 - a. Four basic mechanisms (sometimes variations), alone or in combination:
 - i. Wholly Obtained (not really a List Rule, but you find it in the lists, and where it applies, the General Tolerance Rule can help you!)
 - ii. Change of Tariff Heading (CTH)
 - iii. Value Addition (maximum value share of foreign – ‘non-originating’ – inputs
 - iv. Specific Processing
 - b. Two exceptions
 - i. Permissive: General Tolerance Rule (10% non-originating inputs, but beware of limitations)
 - ii. Restrictive: Minimal operations (“insufficient working or processing”) excluded even if the list rule is satisfied (e.g. when value addition)

Example 1: Aluminium Bars

The Situation

Company A produces aluminium bars of less than 7mm cross-sectional dimension for export to the EU. Its input materials are:

Materials used:	Origin:	HS:	Value:
Unwrought aluminium ingots	Iceland (an EFTA country)	7601.20	EUR 20 per unit
Unwrought aluminium ingots	Bahrain	7601.20	EUR 60 per unit

The company applies an ex-works price of EUR 100 per unit. Will the profiles benefit from 'originating' status? What if the ex-works price is raised to EUR 130 per unit?

The Analysis

- The product is not wholly obtained.
- The final product - aluminium bars of less than 7mm cross-sectional dimension – falls under HS 7604.29.
- The applicable List Rule is the general Chapter Rule (ex Chapter 76) because no special rule applies to this product.
- The rule says: Manufacture (1) from [non-originating] materials of any heading, except that of the product, (2) in which the value of all the [non-originating] materials used do not exceed 50% of the ex-works price of the product.
- Here the input materials are classified in a different HS Heading (7601) than the final product (7604). The CTH rule is satisfied.
- However, the foreign inputs account for EUR 80 (60+20) out of the final ex-works price of EUR 100, that is: 80%. The value addition rule (maximum 50% non-originating materials) is not satisfied. This applies also if the ex works price is EUR 130; the value of foreign inputs would still be $80/130 = 61.5\%$.
- The situation is different if and when cumulation with EFTA applies (Iceland is a member of EFTA). In that case the ingots from Iceland would be treated as 'originating' inputs. That means that only the ingots from Bahrain would be 'non-originating'. If the ex-works price is EUR 100 the ingots from Bahrain still account for 60% of the ex-works price, that is: more than the permitted 50%. The aluminium bars would still not have Lebanese origin. But if the ex works price is raised to EUR 130 the Bahraini inputs would only account for $60/130 = 46.1\%$. The value addition criterion would be satisfied, the aluminium bars would be considered to be of Lebanese origin when imported into the EU. The same would apply already today if the products were exported to an EFTA country. In that case bilateral cumulation would apply, and the inputs from Iceland would count as 'originating'.

Example 2: Aluminium Bars Again, but with Different Sourcing

The Situation

The same as above. However, Company A has changed its sourcing:

Materials used:	Origin:	HS:	Value:
Unwrought aluminium ingots	Iceland	7601.20	EUR 50 per unit
Unwrought aluminium ingots	Bahrain	7601.20	EUR 30 per unit

The company still applies an ex-works price of EUR 100 per unit. Will the profiles benefit from 'originating' status?

The Analysis

- Now the Bahraini inputs account only for 30%. The total foreign inputs still account for 80%, but 50% are from Iceland, an EFTA Member.
- This means: If and when PEM cumulation applies, only the 30% inputs from Bahrain count as 'non-originating'. The value addition rule (maximum 50%) would be satisfied – the bars have Lebanese origin when exported to the EU. This will be the case once the PEM convention applies in the EFTA-Lebanon and EU-Lebanon agreements.
- If the bars are exported to an EFTA country the bars would already today count as Lebanese products. This is because bilateral cumulation applies in the EFTA-Lebanon agreement. The inputs from Iceland would already today be treated as 'originating' and hence not be counted as foreign inputs.

Example 3: Paper-Backed Aluminium Foil

The Situation

Company A produces paper-backed aluminium foil for export to Germany. It imports the components as follows:

Materials used:	Origin:	HS:	Value:
Aluminium foil	China	7607.11	USD 0.40 per unit
Paper	Turkey	4805	USD 0.06 per unit

The ex-works price is USD 0.90 per unit. Will the aluminium foil with paper backing obtain "originating status"?

The Analysis

- The product falls under HS 7607.20.90.
- It is not wholly obtained.
- The applicable List Rule is again the general Chapter Rule (ex Chapter 76) because no special rule applies to this product. The rule requires manufacture (1) from [non-originating] materials of any heading, except that of the product, (2) in which the value of all the [non-originating] materials used do not exceed 50% of the ex-works price of the product.
- Here the aluminium foil from China falls under the same HS Heading (4-digits) as the final product, namely Heading 7607. This means that already the first criterion of the combined rule – change of tariff heading for all 'non-originating' materials – is not satisfied. The product does not acquire Lebanese origin under PEM rules.
- The value-addition is irrelevant.
- Also the role of the inputs from Turkey and the possibility of cumulation under the PEM Convention are not relevant in this case. Even if Turkish inputs count as 'originating' the Chinese inputs still do not change of tariff heading.

Example 4: Aluminium Screws**The Situation**

The Company A produces aluminium screws. The materials used are:

Materials used:	Origin:	HS:	Value:
Unwrought aluminium	UAE	7601	USD 0.20 per unit
Aluminium scrap	Lebanon	7602	USD 0.20 per unit
Aluminium netting	USA	7616.91	USD 0.40 per unit

Ex-works price is USD 1.50 per unit: Will the screws obtain “originating status”?

The Analysis

- The product is not wholly obtained.
- The product is classified under HS 7616.10.
- The applicable rule is ex7616, which is: Manufacture (1) from [non-originating] materials of any heading, except that of the product. However, gauze, cloth, grill, netting, fencing, reinforcing fabric and similar materials (including endless bands) of aluminium wire, or expanded metal of aluminium may be used, (2) in which the value of all the [non-originating] materials used does not exceed 50 % of the ex-works price of the product.
- The rule is a combination of CTH with some exceptions and value added.
- Unwrought aluminium and aluminium scrap are classified under different heading than aluminium screws. However, aluminium netting and aluminium screws both fall under HS 7616. Looks like the CTH rule is not satisfied, but looking into exceptions permitting manufacture from specific materials classified under any heading, including that of the product, we see that netting of aluminium is mentioned. The CTH rule is satisfied.
- Materials from Lebanon are obviously ‘originating’, so only materials from UAE and the USA are counted as ‘non-originating’. They amount for USD 0.60 which is 40 % of the ex-works price of aluminium screws. The value added rule is satisfied.
- Both combination rules are satisfied.
- The product will obtain ‘originating’ status.

Example 5: Aluminium Garden Chairs**The Situation**

The Company A produces garden chairs using the following materials:

Materials used:	Origin:	HS:	Value:
Unwrought aluminium	India	7601	USD 1.50 per chair

Aluminium scrap	Lebanon	7602	USD 1.40 per chair
Woven cotton cloth, weighing less than 300g/m2, designed and ready to be used for the chairs	Mali	9401.90	USD 1.00 per chair

The ex-works price is USD 10 per chair. Will the chairs obtain 'originating' product status?

The Analysis

- The product is not wholly obtained.
- Unlike other furniture, which is classified under HS 9403, chairs are classified under the special Heading for "seats", namely HS 9401.
- The applicable rule is "ex 9401 and ex9403" which covers "*base metal furniture, incorporating unstuffed cotton cloth of a weight of 300g/m2 or less.*" Here the cotton satisfies the condition. The List Rule applies.
- The rule is a bit complex:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex9401 and ex9403	Base metal furniture, incorporating unstuffed cotton cloth of a weight of 300g/m2 or less	Manufacture from [<i>non-originating</i>] materials of any heading, except that of the product or Manufacture from cotton cloth already made up for use with materials of heading 9401 or 9403, provided that: - the value of the [<i>non-originating</i>] cloth does not exceed 25% of the ex-works price of the product, and - all the other materials used are originating and are classified in a heading other than [<i>non-originating</i>] materials	Manufacture in which the value of all the [<i>non-originating</i>] materials used does not exceed 40 % of the ex-works price of the product

- There are thus two alternatives in column (1). The first one is a standard CTH rule – the same that applies as the Chapter Rule. Here, however, the cotton cloth from Mali is already prepared to serve as a part of the chairs. This means that it is no longer classified as cotton cloth under Chapter 52, but as a 'part' of seats under HS 9401.90. This means the cotton is classified under the same heading as the final chairs – the CTH rule is not satisfied.

- The second alternative allows for the use of the cotton cloth already classified under this Heading. However, two rather strict requirements apply: First, the cotton must not account for more than 25% of the ex-works price. This is fulfilled here. The cotton only accounts for USD 1.00 out of USD 10.00, i.e. 10%.
- Second, all other inputs must be ‘originating’ *and* be classified in headings other than HS 9401 and HS 9403. This seems not to be the case here: The aluminium inputs come from foreign sources. But are they not in the meantime worked into other products, acquiring origin? Yes, they are worked into other products, namely the chairs, or parts thereof, before they are put together with the cloth to form the final chairs. So there is a change of tariff heading, and the aluminium parts acquire Lebanese origin (under the “Ex Chapter 94” rule). That, however, is exactly what this List Rule excludes: Once you use this alternative, which allows you to bring in ‘non-originating’ cotton, you cannot use materials of Headings HS 9401 or 9403. What this really means is: Materials have to be ‘originating’ *before* they reach the stage of being classified under HS 9401 or HS 9403. In other words: Before they are transformed into furniture parts.
- This is not the case here. The aluminium inputs are ‘non-originating’, and only through processing into parts for chairs (HS 9401) do they become ‘originating’. The List Rule is thus not satisfied, the chairs cannot acquire Lebanese origin under this heading. (This would be different, for example, if the aluminium inputs came from a cumulation partner country, in which case they would count as ‘originating’).
- However, a third alternative is available – the pure value-addition rule in Column (4): *“Manufacture in which the value of all the [non-originating] materials used does not exceed 40% of the ex-works price of the product.”* Here all foreign inputs together account for 39% of the ex-works price. The rule would be satisfied, the chairs acquire Lebanese origin.

4.3. Paper & Cardboard

A Word of Caution: Some Rules May Change

The point of this manual and this section is to make users familiar with how the main concepts and key mechanics work. The descriptions, examples and exercises below are based on the rules as they stand at the time of drafting. Users should keep in mind that negotiations are taking place to amend the PEM Convention. Some rules may thus change, which of course might affect the result of some examples/exercises.

4.3.1. What's special?

- The rules for most paper and paper-based products are rather concentrated.
- Paper products largely fall under HS Chapters 48 and 49. Chapter 48 covers paper itself and most classical paper products, from stationery to toilet paper. Chapter 49 covers printed matter. Paper-making base materials, from pulp to waste paper, are covered in Chapter 47.
- Recycling plays an important role in practice.

4.3.2. What are the main rules to keep in mind?

(1) Main Chapter Rules (Default Rule) for Chapters 48 and 49

- The main Chapter Rule for HS Chapter 48 ("Paper and paperboard; articles of paper pulp, of paper or of paperboard") - that is: the default rule for products for which there is no special rule – looks as follows:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex Chapter 48	Paper and paperboard; articles of paper pulp, of paper or of paperboard; except for: <i>[special rules follow, see below]</i>	Manufacture from <i>[non-originating]</i> materials of any heading, except that of the product	

- This means: Unless a special rule applies (see below), paper & cardboard products are 'originating' if all 'non-originating' inputs (that is: foreign inputs from countries with which there is no cumulation of origin) fall under a different HS heading than the product itself. This is the simple, standard "Change of Tariff Heading" (CTH) rule.
- The same CTH rule applies as Chapter Rule to Chapter 49 ("Printed books, newspapers, pictures and other products of the printing industry..."):

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex Chapter 49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans; except for: <i>[special rules follow, see below]</i>	Manufacture from <i>[non-originating]</i> materials of any heading, except that of the product	

(2) Other Product-Specific Rules in Chapter 48 and 49

- Chapter 48 has a small number of product-specific rules. Take a look:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex4811	Paper and paperboard, ruled, lined or squared only	Manufacture from paper-making materials of Chapter 47	
4816	Carbon paper, self-copy paper and other copying or transfer papers(...)	Manufacture from paper-making materials of Chapter 47	
4817	Envelopes, letter cards, plain postcards and correspondence cards, of paper or paperboard; boxes, pouches, wallets and writing compendiums, of paper or paperboard, containing an assortment of paper stationery	Manufacture: - from <i>[non-originating]</i> materials of any heading, except that of the product - in which the value of all the <i>[non-originating]</i> materials used does not exceed 50% of the ex-works price of the product	
ex4818	Toilet paper	Manufacture from paper-making materials of Chapter 47	
ex4819	Cartons, boxes, cases, bags and other packing containers, of paper, paperboard, cellulose wadding or webs of cellulose fibres	Manufacture: - from <i>[non-originating]</i> materials of any heading, except that of the product - in which the value of all the <i>[non-originating]</i> materials used does not exceed 50% of the ex-works price of the product	
ex4820	Letter pads	Manufacture in which the value of all the materials used does not exceed 50 % of the ex-works price of the product	
ex4823	Other paper, paperboard, cellulose wadding and webs of cellulose fibres, cut to size or shape	Manufacture from paper-making materials of Chapter 47	

- There are thus three special rules, applied to several products.
- For a first group of products the rule is much stricter than the general Chapter Rule. The rule demands that these products must be produced directly from paper-making materials (Chapter 47 – pulp of wood or other fibres, cellulose, recycled paper waste etc.). This means, in short, that all production steps after the stage of raw materials need to be completed in the country. In particular, no imported ‘non-originating’ interim products from within

Chapter 48 can be used (but of course such products can be used if they come from countries with which cumulation applies, as these count as ‘originating’). This rule applies to

- paper and paperboard that is ruled, lined or squared (these are grouped – together with other products – under HS 4811);
- carbon paper, self-copying paper and similar products (HS 4816);
- toilet paper (ex4818, namely 4818.10. The same Heading also covers various other, similar products, such as facial tissues such as “Kleenex”. To these the easier general Chapter Rule (above) would apply.);
- and other paper, paperboard, cellulose wadding (...) cut to size or shape (ex4823).
- This means, for example, that printing lines or square grids on (foreign) paper (4811) or the cutting, rolling etc. of toilet paper (4818.10) from suitable (foreign) tissue stock (4803) will not confer Lebanese origin.
- For a second group of products the rule is also more restrictive than the general Chapter Rule, but usually not as limiting in the choice of inputs. This rule requires that in addition to the Change in Tariff Heading (CTH) demanded by the general rule the value of foreign (‘non-originating’) inputs does not go beyond 50% of the ex-works price of the final product. The rule just combines CTH with value addition. This rule applies to
 - envelopes, letter cards etc. (4817)
 - cartons, boxes, cases etc. (ex 4819 – again, that Heading also contains other products to which the general Chapter Rule continues to apply, for example letter trays and storage boxes used in offices);
- This means, for example, that cardboard cartons (4819) not only have to be produced from materials (if ‘non-originating’) from other Headings – this could be, for example, cardboard from HS Heading 4808 (corrugated paperboard) – but also that all ‘non-originating’ materials used (including also staples etc.) must not amount to more than 50% of the total final value (ex-works).
- For one product group a more permissive rule applies: Letter pads (ex 4802) can be produced from materials of the same heading, provided the value addition is 50%.
- Chapter 49 contains two special rules, namely for printed postcards and greeting cards (CTH, excluding also Heading 4911, which includes photographs) and for calendars.

(3) List Rules for other Products Made from Paper and Cardboard

- Like for other groups of products defined primarily by the materials used, such as plastics and aluminium, some products made of paper fall under other Chapters than Chapter 48, namely if defined by their functionality. This applies, for example, to furniture made from paperboard (HS Chapter 94), jewellery boxes made from paperboard (HS Heading 4202) or paper-backed aluminium foil (HS Heading 7607). For these products other specific rules apply.

4.3.3. What are the main issues to watch out for?

- Some products require production from basic paper-making materials. This is rather restrictive, somewhat similar to the strictures for textile and clothing products.

- The dominant rule is CTH, applicable to most paper and printed matter products. However, in some cases value addition applies in addition.
- Paper and paperboard products with certain functionalities may be grouped outside Chapters 47-49, such as paper lamp shades and cardboard furniture.

4.3.4. Examples/Exercises

Reminder: The Basic Mechanics

1. Check whether origin matters for your business – is there a tariff preference you or your customer are planning to use? If yes:
2. Check whether the product is “wholly obtained” in Lebanon. If not:
3. Check the HS heading and apply the List Rules. Make sure to apply ‘cumulation’ where it fits: inputs from cumulation partner countries count as ‘originating’, just like local inputs.
 - a. Four basic mechanisms (sometimes variations), alone or in combination:
 - i. Wholly Obtained (not really a List Rule, but you find it in the lists, and where it applies, the General Tolerance Rule can help you!)
 - ii. Change of Tariff Heading (CTH)
 - iii. Value Addition (maximum value share of foreign – ‘non-originating’ – inputs
 - iv. Specific Processing
 - b. Two exceptions
 - i. Permissive: General Tolerance Rule (10% non-originating inputs, but beware of limitations)
 - ii. Restrictive: Minimal operations (“insufficient working or processing”) excluded *even if the list rule is satisfied* (e.g. when value addition)

Example 1a. Paperboard Boxes with Clasp

The Situation

Company *BeirutPaper* produces paperboard boxes with clasps for export to Switzerland.

Materials used:	Origin:	HS:	Value:
Paperboard (square sheets)	China	4802	USD 4.00 per unit
Clasp with lock	USA	8301.50	USD 0.50 per unit

At an ex-works price of USD 10.00 per unit: Will the product obtain ‘originating product’ status?
What if the ex works price is USD 8.00 per unit?

The Analysis

- The boxes are not “wholly obtained”.
- The boxes fall under HS Subheading 4819.10.
- The rule “ex4819” applies because the product falls under the specific description (“cartons, boxes...”). See the rule reproduced above in Subsection 4.3.2.
- The rule combines CTH with “value addition”. Foreign (‘non-originating’) input products must not come from the same HS Heading; and their total value must not exceed 50% of the ex-works price.
- Here both input products fall under different HS Headings than the final product, the cardboard boxes. The first criterion – Change of Tariff heading, CTH – is fulfilled.
- If the ex-works price is USD 10.00, the value addition criterion is also fulfilled. All foreign inputs together amount to USD 4.50, so 45% of the ex-works price. This is below the maximum of 50%. The products are ‘Lebanese’ for purposes of exports to Switzerland (EFTA).
- If the ex-works price however is USD 8.00 the second criterion is not fulfilled. The ‘non-originating’ products account for USD 4.50 of USD 8.00, that is: 56.25% of the ex-works price. The products are not ‘originating’ and would have to pay the full MFN tariff when imported into Switzerland.

Example 1b. Paperboard Boxes with Clasp

The Situation

The same as above, but *BeirutPaper* has changed its sources:

Materials used:	Origin:	HS:	Value:
Paperboard boxes	Turkey	4819.10	USD 5.00 per unit
Clasp with lock	USA	8301.50	USD 0.50 per unit

At an ex-works price is USD 10.00 per unit: Will the product obtain ‘originating’ status?

The Analysis

- As long as the inputs from Turkey count as ‘non-originating’ the final product will not acquire ‘originating’ status because the value-addition criterion (maximum 50% foreign input materials) is not satisfied. The foreign inputs together amount to 55% of the ex-works price (USD 5.50 out of USD 10.00).
- However, once the PEM convention’s rules apply under both the Lebanon-EFTA and the Lebanon-Turkey agreements, the possibility of *cumulation of origin* arises. The products from Turkey would be considered ‘originating’ (i.e., treated the same as Lebanese inputs), and hence would not count against either part of the rule. The value of ‘non-originating’ inputs would thus here be only USD 0.50 per unit (clasp from the United States). The boxes will be considered to be of Lebanese origin.

Example 2a. Holiday Paper Bags

The Situation

The Company *BeirutPaper* also produces paper bags, which it wishes to export to the Switzerland and Norway, both EFTA countries. In fact, it usually buys the plain bags in bulk and then transforms them through elaborate printing into quality themed bags for customers' use, for example Christmas shopping bags, sorts them by size and shape into smaller orders etc.

It's sourcing of inputs looks as follows:

Materials used:	Origin:	HS:	Value:
Paper bags	China	4819.40	USD 0.60 per unit
Printing ink	India	3215.19	USD 0.02 per unit

At an ex-works price of USD 1.25 per unit: Will the paper bags obtain 'originating' status? What if the ex-works price is USD 1.00?

The Analysis

- The product is not wholly obtained
- The paper bags fall under HS Sub-heading 4819.40.
- The product-specific List Rule "ex4819" applies, as the product fits the description ("...bags...of paper..."). The rule combines CTH with "value addition". Foreign ('non-originating') input products must not come from the same HS Heading; and their total value must not exceed 50% of the ex-works price.
- Here the inputs from China, namely the plain bags, fall under the same tariff Heading as the final product. The first criterion is thus not fulfilled – the bags are not 'originating'. The value-addition criterion would be fulfilled for an ex-works price of USD 1.25, but because both criteria apply cumulatively (at the same time), the bags do not acquire origin.

Example 2b. Paper Bags Again

The Situation

The same situation as above, but *PaperBeirut* has changed its sources. The plain bags are now imported from Iceland, an EFTA country.

Materials used:	Origin:	HS:	Value:
Paper bags	Iceland	4819.40	USD 0.60 per unit
Printing ink	India	3215.19	USD 0.02 per unit

At an ex-works price of USD 1.00 per unit: Will the product obtain origin under PEM rules? What if the paper bags were sourced from India and the printing ink was sourced from Italy, would the paper bags obtain 'originating product' status?

The Analysis

- The plain paper bags of Icelandic origin would be considered ‘originating’ under PEM cumulation rules, once these are adopted into the EU-Lebanon Association Agreement. But even under the current bilateral rules of origin in the EU-Lebanon Agreement the same would apply, as so-called ‘bilateral cumulation’. Because the bags come from an EFTA country (Iceland) and are, after further processing, re-exported back to EFTA countries (Switzerland and Norway), the cumulation would happen within the bilateral Lebanon-EU relationship, not with a third partner. This is already now possible.
- Because the ink from India falls under a different heading and only accounts for 2% of the ex-works price, both criteria – CTH and value addition – would be satisfied.
- If the sources for paper bags and ink were switched, however, the result would be different. If the ink came from Italy and the plain bags from India (at the same prices), the Indian ‘non-originating’ input would violate both the CTH and the value-addition criterion (60% of the ex-works price of the final product). Even if the bags were significantly cheaper if sourced from India – for example: USD 0.30 per unit – the CTH criterion would still be violated, as the plain/raw bags fall under the same Heading as the finished elaborately themed bags. (However, of course, if inputs can be sourced so much cheaper, it is likely that this trumps any tariff advantage that can be gained from trade preferences for ‘originating’ products versus ‘non-originating’ products. BeirutPaper would be well-advised to check this carefully.)

Example 3. Folding Paper Boxes, Not Waterproofed (10 pack)

The Situation

BeirutPaper also produces basic folding paper boxes, not waterproofed, sold in packs of 10.

Materials used:	Origin:	HS:	Value:
Corrugated paperboard	Bosnia	4808.10	USD 0.09 per pack
Corrugated paperboard	China	4808.10	USD 0.21 per pack
Paperboard recycled from old boxes and cartons (corrugated)	Kuwait	4819.10	USD 0.06 per pack

The ex-works price of the boxes is USD 0.40 per pack, will the boxes obtain “originating status”?

Example 4. Letter Pads and Receipt Blocks

The Situation

BeirutPaper also produces letter pads and customized receipt blocks for retail businesses. Both products are in fact largely identical, except that the letter pads have plain pages and a nicely decorated cover while the receipt blocks contain printed pages and a different cover reading ‘Receipt Block’. Both are produced mostly for Swiss customers.

The materials are sourced as follows:

Materials used:	Origin:	HS:	Value:
Glue	Saudi Arabia	3506	USD 0.01 per unit
Recycled paper	China	4707	USD 0.10 per unit
Printing ink	India	3215.19	USD 0.02 per unit

The ex-works price is USD 0.20 for both letter pads and receipt blocks: Will they obtain ‘originating’ status under PEM Convention rules?

The Analysis

- Both products are not wholly obtained.
- Both fall under HS Heading 4820, even under the same Sub-heading (4820.10) – “Registers, account books, note books, order books, receipt books, letter pads, memorandum pads, diaries and similar articles”.
- The PEM List Rule for this heading however is an “ex-out” rule: “ex4820” singles out “letter pads”. For these a simple value-addition rule applies: The value of foreign (‘non-originating’) inputs must not exceed 50% of the final product’s value (ex-works price). This rule thus applies to the letter pads which BeirutPaper produces.
- Here the cost of ‘non-originating’ inputs from Saudi Arabia, China and India account for USD 0.13 out of USD 0.20 final ex-works price, that means: 65%. The value-addition rule that applies to letter pads is violated. The letter pads do not have Lebanese origin.
- The story is different for the receipt blocks. Because these do not fall under the “ex4820” List Rule – which is limited to letter pads only –, the general Chapter Rule (“ex Chapter 48”) applies by default. That rule says: “Manufacture from [non-originating] materials of any heading, except that of the product” – in other words: the standard Change of Tariff Heading (CTH) rule applies.
- Here all three foreign inputs fall under different HS Headings than the final product (4820). The Chapter Rule is thus satisfied, the receipt blocks have acquired Lebanese origin. To be clear: Value addition plays no role whatsoever. Even if the value of the materials amounted to 19 cents (95% of the final product), the applicable List Rule – the Chapter Rule – would be satisfied, as the inputs change their tariff heading in the production process.
- The fate of the letter pads is thus very different from that of the (very similar) receipt blocks. One (the receipt blocks) counts as ‘originating’ and benefit from tariff preferences, the other (letter pads) is ‘non-originating’ and does not enjoy such privileges under relevant trade agreements, for example when exported to EFTA or EU countries.

Example 5. Printed Toilet and Kitchen Paper

The Situation

BeirutPaper further produces high-value toilet and kitchen paper printed with distinctive patterns. It uses the same sheets of tissue stock (HS 4803) from China and ink from India. These are cut, rolled,

printed and packaged. Both products, except for their cut and dedicated function, are largely identical. Will the products acquire ‘originating’ status as Lebanese products for purposes of exports to countries under PEM rules?

The Analysis

- The products are not wholly obtained
- Both fall under HS Heading 4818. The “ex4818” rule however singles out toilet paper. The rule demands that toilet paper must be produced directly from paper-making materials (Chapter 47 – pulp of wood or other fibres, cellulose, recycled paper waste etc.). This means, in short, that all production steps after the stage of raw materials need to be completed in the country. In particular, no imported ‘non-originating’ interim products from within Chapter 48 can be used. The tissue stock from China falls under HS Heading 4803. The toilet paper thus is not ‘originating’. (If the tissue stock came from a country with which cumulation applies – in the future this could be any of the PEM Convention parties around the Mediterranean and in Europe – the rule would be satisfied as the tissue stock would count as ‘originating’.)
- The situation is different for the kitchen paper. For kitchen paper the “ex4818” rule does not apply; instead the general Chapter rule applies: Change of Tariff Heading – CHT. Because the tissue stock from China falls under a different heading than the kitchen paper as the final product, the rule is satisfied – the kitchen paper has Lebanese origin.

Example 6. Special Books

The Situation

CedarPublishing, a publishing house, edits, prints and distributes books. It is specialized in foreign authors, usually from Arab countries. The value of the final books as they leave the printing house consist of 20% materials (paper), 10% printing and ink and 70% intellectual property (mostly copyright of the authors). *CedarPublishing* exports these books to various countries, including to the diaspora markets in Europe and to the Arab world.

CedarPublishing makes its own distinctive paper, a trademark feature of its books. For this it buys certain types of old books, often through Amazon, from used book re-sellers from around the world. It then recycles the paper and recomposes its own paper from it. All other materials come from Lebanon.

Do the books acquire ‘originating’ status under PEM rules?

The Analysis

- The books are not wholly obtained. This in fact could have been the case if the waste paper had been collected locally from (originally) imported used books. However, the relevant rule (in Article 4 (h) of the PEM Appendix 1 of the PEM Convention) is rather strict: only if the “used articles collected there [are] only fit for the recovery of raw materials”. This means that books that are still perfectly fine and fit for normal use (reading) would not count, unless discarded (e.g. put into recycling containers by their owners).
- The product – books – fall under HS Heading 4901. The Chapter rule (“ex Chapter 49”) applies: Change in Tariff Heading (CTH). This would be unproblematic if *CedarPublishing* simply used paper, from whatever source. Here, however, *CedarPublishing*

imports usable books, classified under HS Heading 4901 like the final product, and transforms them into recycled paper and then back into books. It could seem as if the Change in Tariff Heading rule is not satisfied.

- However, it is important to note in between a three-step process occurs. The imported books are first transformed into pulp (HS 4706), and then recomposed as printing paper (HS 4802), before this is again transformed into a book (HS 4901). In each of these steps a change in tariff headings occurs, for both interim products CTH is the applicable rule to acquire origin. Importantly, Article 5.1 of the Appendix 1 to the PEM Convention clarifies that if goods (interim products) acquire origin 'on the way' according to the List Rules, their 'non-originating' input materials no longer matter.

"[I]f a product which has acquired originating status by fulfilling the conditions set out in the list is used in the manufacture of another product, the conditions applicable to the product in which it is incorporated do not apply to it, and no account shall be taken of the non-originating materials which may have been used in its manufacture."

- In other words: Once the imported books are decomposed into pulp in Lebanon, the pulp becomes an 'originating' Lebanese product under the Chapter 47 rule. All future steps then use an 'originating' input material, the List Rules no longer matter for this material. The books are thus equally of Lebanese origin. The fact that this all happens within one company does not change the result (see Note 3.1 of the introductory notes to the List Rules).
- Note: The fact that the books when leaving the factory contain up to 70% 'foreign value', namely the copyright of the authors, is irrelevant for purposes of the origin determination under PEM rules. PEM List Rules (and, in fact, general rules) only consider physical input materials as relevant foreign inputs to look out for. Foreign services and foreign intellectual property can be freely used. As long as the physical goods are located in Lebanon while the value is added, the foreign source of the added non-physical value does not matter.

4.4. Jewellery

A Word of Caution: Some Rules May Change

The point of this manual and this section is to make users familiar with how the main concepts and key mechanics work. The descriptions, examples and exercises below are based on the rules as they stand at the time of drafting. Users should keep in mind that negotiations are taking place to amend the PEM Convention. Some rules may thus change, which of course might affect the result of some examples/exercises.

4.4.1. What's special?

- Producers in the jewellery industry often deal with extremely valuable base materials, such as precious stones and precious metals. This has an impact on how rules of origin can work.
- Although producers often add a lot of value, for example by designing jewellery or by performing sophisticated work on precious stones, the materials they use are so valuable that their work's share in the price of the final product is not big. A gold smith who designs and produces earrings from gold, platinum and diamonds may buy these materials for USD 8'000 and sell the final product for USD 10'000. While her work is thus worth USD 2'000, it only amounts to 20% of the ex-works price. The materials account for the other 80%. This means that standard value addition requirement, limiting foreign inputs to 40 or 50%, will often not work.
- Producers of jewellery and other products made from precious materials may also often start by using materials that are already technically classified in the same HS Heading as the final product. A gold smith may for example buy a standard gold bracelet and the added inlays of silver and precious stones, the final product still being a bracelet. This means that a standard CTH heading also does not do justice to many businesses that do add significant value.
- This is also true for metals in more or less basic form, as they often have to undergo treatment such as smelting and catalysing in order to increase their degree of purity and/or get them into a graded shape (e.g. ingots of a certain weight and quality). This calls for recognizing certain processes as relevant transformations.
- Precious stones and metals are precious because they are rare. That means producers of jewellery often have to import most if not all of their base materials, as they may not be available in the country.
- The PEM rules of origin take account of these realities and considerations. As a result, the rules of origin for many products in this sector are relatively lenient (permissive). However, the standard mechanisms (CTH, value-addition, specific processes) are still used, and producers may sometimes find it difficult to satisfy the requirements.

4.4.2. What are the main rules to keep in mind?

(1) Main Chapter Rule (Default Rule)

- The main Chapter Rule for HS Chapter 71 ("Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin") - that is: the default rule for products for which there is no special rule – is the standard Change of Tariff Heading (CTH) rule. It looks as follows:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex Chapter 71	Natural or cultured pearls, precious or semi- precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin; except for: [3 special rules follow, see below]	Manufacture from [non-originating] materials of any heading, except that of the product	

- This means: Unless a special rule applies (see below), jewellery products are ‘originating’ if all ‘non-originating’ inputs (that is: foreign inputs from countries with which there is no cumulation of origin) fall under a different HS heading than the product itself.

(2) Other Product-Specific Rules in Chapter 71

- However, the rules for key high-value items, namely precious stones, are much more lenient, more permissive. This appears logical: Much value is added to diamonds and other precious stones by cutting, polishing and other often highly sophisticated steps, while the items themselves remain within their tariff heading (diamond before, diamond after). The CTH rule would not allow this value to be captured under trade preferences. A value-addition rule would also often not help: While the value added may be significant, it will often not be significant relative to the already high value of the raw material used (e.g., a raw diamond).
- A simple value-addition rule, however, does apply to some other products, notably jewellery that includes pearls or stones, falling under HS Heading 7116 (Articles of natural or cultured pearls, precious or semi-precious stones). Here foreign (‘non-originating’) inputs must not be greater than 50% in value.

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex7102	Worked precious or semi-precious stones (natural, synthetic or reconstructed)	Manufacture from unworked precious or semi-precious stones	
ex7101	Natural or cultured pearls, graded and temporarily strung for convenience of transport	Manufacture in which the value of all the [non-originating] materials used does not exceed 50% of the ex-works price of the product	

7108	Precious metals: - Unwrought - Semi-manufactured or in powder form	Manufacture from: - materials of any heading, except those of headings 7106, 7108 and 7110 - electrolytic, thermal or chemical separation of precious metals of heading 7106, 7108 or 7110 - alloying of precious metals of heading 7106, 7108 or 7110 with each other or with base metals Manufacture from unwrought precious metals	
ex7107, ex7109 and ex7111	Metals clad with precious metals, semi-manufactured	Manufacture from metals clads with precious metals, unwrought	
7116	Articles of natural or cultured pearls, precious or semi-precious stones (natural, synthetic or reconstructed)	Manufacture in which the value of all the [non-originating] materials used does not exceed 50% of the ex-works price of the product	
7117	Imitation Jewellery	Manufacture from materials of any heading, except that of the product or Manufacture from base metal parts, not plated or covered with precious metals, provided that the value of all the materials used does not exceed 50 % of the ex-works price of the product	

(3) List Rules for other Jewellery (and Related) Products

- Some products of this sector are found outside of Chapter 71.
- For example, “Glass beads, imitation pearls, imitation precious stones or semiprecious stones and similar glass smallwares, and articles thereof *other than imitation jewellery* “(see above: 7117) are found under Heading 7018; the standard CTH rule applies.

4.4.3. Examples/Exercises

Reminder: The Basic Mechanics

1. Check whether origin matters for your business – is there a tariff preference you or your customer are planning to use? If yes:
2. Check whether the product is “wholly obtained” in Lebanon. If not:
3. Check the HS heading and apply the List Rules. Make sure to apply ‘cumulation’ where it fits: inputs from cumulation partner countries count as ‘originating’, just like local inputs.
 - a. Four basic mechanisms (sometimes variations), alone or in combination:
 - i. Wholly Obtained (not really a List Rule, but you find it in the lists, and where it applies, the General Tolerance Rule can help you!)
 - ii. Change of Tariff Heading (CTH)
 - iii. Value Addition (maximum value share of foreign – ‘non-originating’ – inputs)
 - iv. Specific Processing
 - b. Two exceptions
 - i. Permissive: General Tolerance Rule (10% non-originating inputs, but beware of limitations)
 - ii. Restrictive: Minimal operations (“insufficient working or processing”) excluded *even if the list rule is satisfied* (e.g. when value addition)

Example 1. Gold Bars/Ingots Cast in Lebanon

The Situation

GildedBeirut produces high purity gold ingots for export to Switzerland. They are smelt and cast from the following inputs:

Materials used:	Origin:	HS:
Old jewellery	Thailand	7113
Waste and scrap gold from jewellery production	Lebanon	7112
Gold bars (low purity)	Pakistan	7108

Will the gold bars obtain ‘originating’ status?

The Analysis

- The gold ingots are not wholly obtained – the gold comes partly from other sources.
- However, the gold waste and scrap from production in Lebanon used as inputs is in fact ‘wholly obtained’, even if the materials used in that production process originally come from abroad. See Article 4.1 (i).

- The final product here, the gold ingots, falls under HS 7108. The ingots are a form of “unwrought” metal. Three alternative rules thus apply, see above. The first one, manufacture from materials of any heading except 7106, 7108 and 7110, does not help here, because some of the input gold comes as gold bars from Pakistan. Here, however, the smelting would satisfy the second alternative (“electrolytic, thermal or chemical separation...”).
- The ingots will acquire Lebanese origin.

Example 2. Diamonds Cut in Lebanon

The Situation

GildedBeirut also cuts and polishes diamonds. Some of this happens on the basis of raw diamonds from South Africa:

Materials used:	Origin:	HS:
Raw diamonds	South Africa	7102.31

Will the diamonds cut and polished in Lebanon obtain “originating status”?

The Analysis

- The diamonds are not wholly obtained
- The diamonds fall under HS 7102. The special List Rule applies which allows for “*manufacture from (‘non-originating’) unworked precious or semi-precious stones*”. This is the case here, as the diamonds come as raw (= unwrought) stones from South Africa.
- The cut diamonds acquire Lebanese origin.

Example 3. Diamonds Cut & Polished in Lebanon

The Situation

As above. Some of *GildedBeirut*’s diamond cutting and polishing happens on diamonds that stem originally from Congo but have undergone basic cutting in Belgium.

Materials used:
Diamonds, cut in Belgium from raw diamonds imported from Congo

Will the diamonds obtain Lebanese “originating status”?

The Analysis

- The List Rule seems not satisfied because the diamonds are no longer ‘unwrought’ when they are imported into Lebanon.

- However, to the extent that cumulation with Belgium (= the EU) applies the finished product would acquire Lebanese origin. This is because the cutting performed in Belgium satisfied the list rule. The diamonds therefore acquire Belgian origin. Further processed in Lebanon – the expert cutting and polishing of diamonds would *not* fall under ‘insufficient working and processing’ under Article 6 – the diamonds would acquire Lebanese origin if cumulation applies.
- This would be the case today, even without application of the PEM Convention, if the diamonds are exported back to the EU. In future this will apply also to exports to other Euro-Mediterranean countries with which Lebanon has an FTA under which the PEM Convention rules are applied.

Example 4. Gold Bracelets with Pearls

The Situation

The company *MyPearlsBeirut* produces jewellery for export to EFTA and the EU. For the manufacture of gold bracelets with pearls the following materials are used:

Materials used:	Origin:	HS:	Value
Gold	Switzerland	7108	USD 30.00 per unit
Gold	Togo	7108	USD 20.00 per unit
Natural pearls	Bahrain	7101.10	USD 25.00 per unit

The ex-works process is USD 100.00. Will the bracelets obtain ‘originating’ product status?

The Analysis

- The bracelets are not ‘wholly obtained’. The materials for their manufacture come from other countries.
- Under which Heading do the bracelets fall? This is not immediately clear:

HS 7113 “Jewellery, goldsmiths and silversmiths wares and other articles: Articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal.”	HS 7116.10 “Jewellery, goldsmiths and silversmiths wares and other articles: Articles of natural or cultured pearls, precious or semiprecious stones Of natural or synthetic pearls”
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- What to do?
- A possible approach is to seek further clarification on the HS classification of the products. This may not be timely (but note: eventually this may have to be done for export and import).

- Another approach is to check the rules and see whether they lead to the same result. Here the List Rules are indeed different:
- For HS 7113
 - The applicable List Rule is the “ex Chapter 71” rule because no special rule applies to this product.
 - The rule is a standard Change in Tariff Heading Rule: *“Manufacture from [non-originating] materials of any heading, except that of the product.”*
 - The rule is satisfied, no matter in which country materials originate, because the materials are classified under different headings than the bracelets. The product will obtain ‘originating status’.
- For HS 7116
 - There specific List Rule for this heading is a standard value-addition rule, but with a higher than normal allowance for ‘non-originating’ inputs: *“Manufacture in which the value of all the [non-originating] materials used does not exceed 50% of the ex-works price of the product”*
 - Here the foreign input materials account for 75% of the ex-works price of the final products. Without cumulation the bracelets cannot acquire Lebanese origin.
 - However. Gold from Switzerland accounts for 30%. If the bracelets are exported to an EFTA country, bilateral cumulation will apply, and the Swiss gold will count as ‘originating’ input material. This already applies under the current EFTA-Lebanon Agreement.
 - For exports to other Euro-Mediterranean countries, for example the EU, Turkey or Jordan, diagonal cumulation would be necessary. This will apply once Lebanon applies the PEM Convention rules in its bilateral relations with the respective countries, and these with each other.

Example 5. Ceramic and Copper Brooch

The Situation

The Company A produces fashion accessories. To produce ceramic and copper brooch the following materials are used:

Materials used:	Origin:	HS:	Value:
Articles of copper	China	7419	USD 2.00 per brooch
Ceramic	India	6914	USD 0.50 per

			brooch
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Will the brooch obtain “originating status” under the first alternative rule?

Ex-works price of USD 3 per brooch: Will the brooch obtain “originating status” under the second alternative rule?

The Analysis

The product is not wholly obtained.

The brooch is classified under HS 7117.19.

The applicable rule is 7117 which contains two alternative conditions to be met: Manufacture from [non-originating] materials of any heading, except that of the product, or manufacture from base metal parts, not plated or covered with precious metals, provided that the value of all the [non-originating] materials used does not exceed 50 % of the ex-works price of the product.

The first alternative is a CTH and would be satisfied because the materials used are from other headings than the product.

The second alternative is a value added with specific process and would not be satisfied, because materials from China and India amount for more than 80 % of the ex-works price and because the specific process requires manufacture from base metal parts while the brooch is manufactured from metal and other materials.

Since the first alternative is satisfied, it does not matter that the second alternative is not.

The brooch will obtain ‘originating status’.

Example 6. Copper Cufflinks Inlaid with Gold Aspect

The Situation

Materials used:	Origin:	HS:
Articles of copper	China	7419
Gold	Togo	7108

How much gold can be inlaid for the cufflinks to be considered “imitation jewellery” falling under HS 7117.90?

If the cufflinks are not considered “imitation jewellery”, what would be the appropriate HS code?

Originating?

The Analysis

- The term ‘imitation jewellery’ and the rule for products classified under this definition provides that product do not contain precious metals, unless their weight is minor. Provided

that cufflinks are small objects, having them inlaid with gold so that it is seen, means that gold is a substantial part of cufflinks, so that its weight is not minor. Cufflinks inlaid with gold aspects are not classified under HS 7117.90.

- Because the cufflinks are made from base metal and precious metal, the appropriate HS code for cufflinks inlaid with gold aspects would be 7113.20 – Articles of jewellery and parts thereof of base metal clad with precious metal.
- The applicable rule will be ex Chapter 71, because there is no specific rule for this product.
- The rule says: Manufacture from [non-originating] materials of any heading, except that of the product. The rule is a CTH.
- The rule is satisfied, because the materials and the product are classified under different headings.
- The product is 'originating'.

4.5. Textiles & Clothing

A Word of Caution: Some Rules May Change

The point of this manual and this section is to make users familiar with how the main concepts and key mechanics work. The descriptions, examples and exercises below are based on the rules as they stand at the time of drafting. Users should keep in mind that negotiations are taking place to amend the PEM Convention. Some rules may thus change, which of course might affect the result of some examples/exercises.

4.5.1. What's special?

- The textiles and clothing sector has traditionally been rather protected in many countries, including EFTA and the EU. This has also shaped the rules of origin systems designed or influenced by such countries.
- The PEM Convention still reflects some of this sensitivity. For example, Chapters 50 – 63 are excluded from the 10% General Tolerance Rule (Article 5.2) and the 10% tolerance rule (Article 11.3 and 11.4) for outward processing (interim export for processing abroad and re-import).
- The most (in)famous feature, however, is the two-step rule – the requirement that two out of three steps (fibre to yarn, yarn to fabric, fabric to textile/clothing product) must be performed in-country on foreign materials to confer origin on the final product. This is found in many List Rules for textile and clothing products. The details vary.
- Cumulation of origin can thus be of great help in overcoming restrictive rules of origin in this sector, although there are also important limitations. Diagonal cumulation under the PEM Convention requires that at the time when the interim product is traded across borders it must itself already have acquired origin; the origin-conferring steps and processes cannot be simply shared across borders – that would require so-called ‘full cumulation’, which the PEM Convention does not provide for.
- The attention this sector receives is also reflected in the sheer quantity of rules. No less than 14 HS Chapters (50-63) are needed to cover textile and clothing products, from silk yarn to dress patterns. By far the biggest share of the Introductory Notes to the List Rules (Annex I to Appendix I) deals with textiles and clothing.

4.5.2. What are the main rules to keep in mind?

- In contrast to some other, less sensitive sectors the most important rules are not necessarily the main Chapter Rules.
- While the main Chapter Rules for HS Chapters 50 (silk, silk yarn and silk fabrics etc.), 51 (wool, wool yarn and woven wool fabrics etc.), 52 (cotton, cotton yarn and woven cotton fabrics etc.), 53 (other vegetable fibres, paper yarn and woven fabrics of paper yarn), for example, provide for a standard Change of Tariff Heading (CTH) rule (*‘Manufacture from [non-originating] materials of any heading, except that of the product’*), most products within those chapters have their own, usually much stricter rules.
- This applies in particular to **fabrics** made from these materials. Fabrics usually require manufacture in two steps, that is: **from fibre** or other raw materials (from fibre/raw materials to yarn, from yarn to fabric). The rule usually reads (with slight variations):

Manufacture from (⁷) (*The footnote refers to Introductory Note 5 to the List Rules*):
- coir yarn,

- natural fibres,
- man-made staple fibres, not carded or combed or otherwise prepared for spinning,
- chemical materials or textile pulp, or
- paper

- In other words: Fabrics made from imported ('non-originating') yarn normally do not qualify for Lebanese origin. The exceptions are coil (cocos) and sometimes jute yarn, which can be used. The same mechanisms in principle apply to felt and other non-wovens, ropes etc. (Chapter 56), carpets (Chapter 57), special woven fabrics (Chapter 58) and knitted or crocheted fabrics (Chapter 60). A few exceptions (product-specific rules) apply.
- However, for **printed fabrics** an important alternative possibility applies. It is usually possible to generate 'originating' printed fabrics on the basis of imported non-printed fabrics, provided that conditions are met – the standard rule, included in numerous List Rules covering fabrics, 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, 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.

- Slightly more relaxed are also the rules for blankets, bed linens, curtains etc. (HS 6301-6304) if made from woven materials: Here manufacture from unbleached yarn is possible. (For non-woven materials the general two-step requirement remains in place.).
- Equally more relaxed are the rules for many impregnated, coated, covered or laminated textile fabrics etc. of Chapter 59, where usually production from yarn is possible. This seems logical as the coating, impregnation etc. is in any case a separate, additional step.
- The main Chapter Rules for rules for **clothing**, namely those for chapters 61 and 62, equally reflect the two-step (minimum) requirement, requiring at least manufacture **from yarn**. *This means production on the basis of imported fabrics usually will not confer Lebanese origin.*
- However, some exceptions apply. One applies to embroidery – wherever clothing is embroidered, the use of non-originating fabric is possible, as long as its value does not exceed 40% of the ex-works price.

4.5.3. What are the main issues to watch out for?

- Many rules for textiles and clothing are rather strict and require two steps to be performed.
- The General Tolerance Rule in Article 5.2 does not apply to textiles and clothing (Chapters 50-63 are explicitly excluded for the rule). However, some less generous tolerance rules may apply. These are clarified in the *Introductory Notes* ("Introductory notes to the list in Annex II" = the List Rules).
- The *Introductory Notes* generally play a very significant role for this sector. Make sure to consult them for both positive and negative 'surprises'!

Reminder: The Basic Mechanics

1. Check whether origin matters for your business – is there a tariff preference you or your customer are planning to use? If yes:
2. Check whether the product is “wholly obtained” in Lebanon. If not:
3. Check the HS heading and apply the List Rules. Make sure to apply ‘cumulation’ where it fits: inputs from cumulation partner countries count as ‘originating’, just like local inputs.
 - a. Four basic mechanisms (sometimes variations), alone or in combination:
 - i. Wholly Obtained (not really a List Rule, but you find it in the lists, and where it applies, the General Tolerance Rule can help you!)
 - ii. Change of Tariff Heading (CTH)
 - iii. Value Addition (maximum value share of foreign – ‘non-originating’ – inputs
 - iv. Specific Processing
 - b. Two exceptions
 - i. Permissive: General Tolerance Rule (10% non-originating inputs, but beware of limitations)
 - ii. Restrictive: Minimal operations (“insufficient working or processing”) excluded even if the list rule is satisfied (e.g. when value addition)

4.5.4. Examples/Exercises**Example 1. Woven Fabric of Carded Wool****The Situation**

LebanonFabrics, a textile manufacturer in Beirut, produces woven fabric of carded wool which it exports to Italy and Switzerland.

Materials used:	Origin:	HS:
Wool, not carded or combed	Colombia	5101
Yarn of carded wool	Peru	5106

What is the origin rule for this product? Will the product obtain ‘originating’ status in Lebanon? Is it necessary to know the value of the inputs?

The Analysis

- The product is not wholly obtained.
- The product falls under HS Heading 5111. A specific List Rule applies to this heading:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status
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(1)	(2)	(3)	(4)
5111 to 5113	Woven fabrics of wool, of fine or coarse animal hair or of horsehair: - Incorporating rubber thread - Other	Manufacture from single yarn ⁽⁷⁾ (Footnote reads: See Introductory Note 5 to the List Rules) Manufacture from ⁽⁷⁾(Footnote reads: See Introductory Note 5 to the List Rules): - coir yarn, - natural fibres, - man-made staple fibres, not carded or combed or otherwise prepared for spinning, - chemical materials or textile pulp, or - paper 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	

- The List Rule is not satisfied. This is because the inputs include wool *yarn*, while the rule requires that the origin-generating manufacture starts at the level of (natural) *fibres*, that is: the stage before yarn. This is the very restrictive ‘two-step’ rule that often applies to textile and clothing products. It requires that – for both natural fibres and man-made fibres – the steps “fibre to yarn” and “yarn to fabric” are completed in the origin-generating country, here Lebanon.
- But what about the value of the yarn from Peru – if it is below 10%, will the General Tolerance Rule (Article 5.2) help? The answer is no. This is because the General Tolerance Rule simply does not apply to products from Chapters 50-63. What would help is to source the input from a cumulation country, which could be interesting in the future as PEM rules start to apply. In that case the yarn would be considered ‘originating’ and hence be treated as if it came from Lebanon itself.

Example 2. Woven Fabric of Combed Wool, Printed (Patterns and Ornaments) in Lebanon

The Situation

LebanonFabrics, the textile manufacturer in Beirut, also produces Printed woven fabrics of wool. In fact, it buys the fabrics from Peru and prints them in Lebanon. It also treats them further in the process of finishing the product. The company's list of input materials looks as follows:

Materials used:	Origin:	HS:	Value:
Woven fabric of combed wool, not printed	Peru	5112	USD 470.00 per unit
Printing colours	USA	Chapter 32	USD 35.00 per unit
Various chemicals	Brazil	Chapter 29	USD 5.00 per unit

At an ex-works price of USD 1000 per unit: Will the product obtain 'originating' status for purposes of export to EFTA, the EU or Turkey? What if the ex-works price is \$ 900?

The Analysis

- The printed fabric is not 'wholly obtained'.
- The product falls under HS Heading 5112. The applicable rule is the one reproduced above under *Example 1* for HS 5111 to 5113.
- Clearly the first alternative rule is not satisfied. The main input material is already wool fabric, so none of the two steps (from fibre to yarn to fabric) has been performed in the country.
- However, the second alternative option may be satisfied. The specific process requirement allows for "*printing accompanied by at least two preparatory or finishing operations (such as scouring, bleaching, mercerising, heat setting, raising, calendaring, 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*".
- The unprinted fabric here accounts for 47% (USD 470 out of USD 1000 per unit) of the ex-works price, that is: less than 47.5%. This means the rule could be satisfied, the product could be of Lebanese origin. However, *LebanonFabrics* would have to check and ensure that its finishing works in addition to the printing itself amount to two of the listed or similar ("such as") operations.
- If the ex-work price falls to USD 900 the rule would in any case no longer be satisfied because the value of the unprinted 'non-originating' fabric from Peru would be higher than the 47.5% allowed by the rule.

Example 3. Wool Carpets (Without Felt)

The Situation

OrientalCarpets, a company based in Byblos, specializes in modern oriental carpets, knotted from wool. The carpets are sold to clients around the world, in particular in Europe. The input materials are:

Materials used:	Origin:	HS:
Wool, carded and combed	New Zealand	5105
Fabric (jute) (for backing)	Brazil	5310

Do the carpets obtain ‘originating’ status under PEM rules of origin?

The Analysis

- The carpets are not wholly obtained.
- The products fall under HS 5701.10. Chapter 57 (“Carpets and other textile floor coverings”) has a single List Rule, which however differentiates between products of needle loom felt, other felt and other materials. The carpets here are made of wool (and jute backing), thus fall under the rule for ‘other’:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
Chapter 57	Carpets and other textile floor coverings: – Of needleloom felt – Of other felt – Other	(...) (...) Manufacture from (7) (<i>Footnote refers to Introductory Note 5 to the List Rules</i>): - coir yarn or jute yarn, - synthetic or artificial filament yarn, - natural fibres, or - man-made staple fibres, not carded or combed or otherwise processed for spinning Jute fabric may be used as a backing	

- The carpets here are produced from wool and jute. The last sentence clarifies that (‘non-originating’) jute fabric backing can be used as backing. The use of jute fabric from Brazil is unproblematic here.
- The wool from New Zealand is ‘carded and combed’. For natural materials, such as wool, the List Rule requires “*manufacture from...natural fibres*”. For man-made (artificial, synthetic) fibres the rule clarifies that these must “*not [yet be] carded, combed, or otherwise processed*”

for spinning". This additional condition is not mentioned for natural fibres. Does this mean that imported wool and other natural fibres can be combed and carded but still count as "natural fibres" for purposes of the rule?

- The answer is yes. It is found in the Introductory Notes to the List Rules. Note 4.1 clarifies:

Introductory notes to the list in Annex II

4.1 The term "natural fibres" is used in the list to refer to fibres other than artificial or synthetic fibres. It is restricted to the stages before spinning takes place, including waste, and, unless otherwise specified, includes fibres which have been carded, combed or otherwise processed, but not spun.

- The wool carpets thus have Lebanese origin.

Example 4. Acrylic Dress, with Embroidery

The Situation

PassionFashion, a fashion house in Beirut, produces dresses from acrylic fabric. A key design element is the semi-traditional embroidery used. The dresses are sold locally, but increasingly also exported to Europe, following successful showings at fashion shows in Milan and Paris. The inputs are as follows:

Materials used	Origin	HS	Value
Yarn (acrylic)	India	5509.32	USD 2.30 per dress
Buttons (plastic)	Thailand	9606.21	USD 0.60 per dress
Cotton thread (for embroidery)	USA	52	USD 0.10 per dress

The current ex-works price of USD 6 per dress: Does the dress obtain Lebanese origin under PEM rules?

PassionFashion is further considering sourcing the ready-made fabric from India in the future, as it would cost virtually the same as the yarn (USD 2.35 per dress). What would this mean for the issue of origin?

The Analysis

- The dresses are not wholly obtained.
- They fall under HS 6204.43. There is a product-specific List Rule for this product, thanks to the embroidery – otherwise the general Chapter Rule would apply ("manufacture from yarn"):

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)

ex6202, ex6204, ex6206, ex6209 and ex6211	Women's, girls' and babies' clothing and clothing accessories for babies, embroidered	Manufacture from yarn⁽⁹⁾ (Footnote reads: See Introductory Note 6.) or Manufacture from unembroidered fabric, provided that the value of the unembroidered fabric used does not exceed 40 % of the ex-works price of the product⁽⁹⁾	
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- The rule thus requires one of two alternative requirements to be met: Either manufacture from yarn or manufacture from unembroidered fabric, as long as that does not account for more than 40% of the value of the final product.
- Here the production is indeed from yarn (acrylic yarn and cotton thread), so the first and basic rule is already satisfied, as far as textile inputs are concerned.
- But what role do the buttons from Thailand (10% of the value) play? The answer is found in the footnote, or rather Introductory Note 6 to the List Rules to which the footnote refers. That Introductory Note says (among other things):

Introductory notes to the list in Annex II

6.2 Without prejudice to Note 6.3, materials, which are not classified within Chapters 50 to 63, may be used freely in the manufacture of textile products, whether or not they contain textiles.

Example:

If a rule in the list provides that, for a particular textile item (such as trousers), yarn must be used, this does not prevent the use of metal items, such as buttons, because buttons are not classified within Chapters 50 to 63. For the same reason, it does not prevent the use of slide-fasteners, even though slide-fasteners normally contain textiles.

- The buttons from Thailand thus play no role, no matter what their value is. The dresses are thus of Lebanese origin.
- But what if *PassionFashion* indeed changes its sourcing and buys the fabric ready-made from India? This would obviously mean that the first alternative – “manufacture from yarn” – is no longer satisfied. The fabric however would account for less than 40% of the final product (USD 2.30 out of USD 6.00 = 38.3%).
- However, in this case, oddly, the value of buttons does come into play. This is again because of the footnote (9), which also refers to Introductory Note 6.3, which reads:

Introductory notes to the list in Annex II

6.3 Where a percentage rule applies, the value of materials which are not classified within Chapters 50 to 63 must be taken into account when calculating the value of the non-originating materials incorporated.

- The buttons thus would appear to count against the total maximum of 40%. Here, the acrylic fabric (USD 2.35) and the buttons (USD 0.60) together would account for 49% of the ex-works price, thus breach the limit.

Example 5. Women's Ensembles (Polyester, without Embroidery)

The Situation

PassionFashion also produces women's ensembles from polyester. Its source for inputs is China:

Materials used:	Origin:	HS:	Value:
Plastic buttons	China	9606.21	USD 0.80 per unit
Polyester fabric	China	5512.11	USD 2.90 per unit

At an ex-works price of USD 9.00 per unit: Will the ensembles obtain 'originating' status?

The Analysis

- The ensembles are not wholly obtained.
- They fall under HS 6204. However, the specific rule "ex6204" does not apply. It only refers to embroidered articles. This means that the general Chapter Rule for Chapter 62 applies: "*Manufacture from yarn (7) (9)*". The footnotes (7) and (9) refer to Introductory Notes 5 and 6.
- The ensembles are made from 'non-originating' fabric, not yarn. There is thus one step missing (yarn to fabric) to satisfy the general Chapter Rule. The products are not Lebanese for purposes of PEM rules of origin.
- The value of the inputs is not relevant in this case.

4.6. Electrical Equipment

A Word of Caution: Some Rules May Change

The point of this manual and this section is to make users familiar with how the main concepts and key mechanics work. The descriptions, examples and exercises below are based on the rules as they stand at the time of drafting. Users should keep in mind that negotiations are taking place to amend the PEM Convention. Some rules may thus change, which of course might affect the result of some examples/exercises.

4.6.1. What's special?

- The electrical equipment sector includes a wide variety of products, from fridges to computers and from motors to smart cards, from microphones to flash drives.
- Many of these products undergo refinement and value addition without necessarily changing tariff headings. The List Rules take this into account: For almost all products in Chapters 84 and 85 the List Rules provide two (or even three or four) alternative ways of obtaining origin. One of these alternatives is a 'pure' value-addition rule. In other words: As long as significant value is added, the List Rules permit working and processing on foreign goods that are already of the same kind (grouped in the same HS Heading) as the final product.
- Many information technology (IT) goods enjoy duty free treatment in many WTO Members, including EFTA, the EU, Turkey and others. This is because these WTO Members participate in the so-called *Information Technology Agreement* (ITA), by which they agree to grant zero tariff treatment to a range of IT products. The ITA is currently being expanded to cover more products. Producers and traders in this sector are therefore re-encouraged to check whether their products already enjoy duty free treatment in any case before worrying about rules of origin. Caution, however: Your customer may want to use your product as input for a finished product which he may wish to export to a third place. For this transaction the origin of your product may matter – make sure to check this!

4.6.2. What are the main rules to keep in mind?

- Most electrical equipment products are grouped into two HS Chapters: Chapter 84 ("Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof") and 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").
- As just indicated, for almost all products in Chapters 84 and 85 the List Rules provide two (or even three or four) alternative ways of obtaining origin. At least one of these alternatives is a 'pure' value-addition rule, often found in Column (4) of the List Rules – the column that is mostly empty in other Chapters.

(1) Main Chapter Rules for Chapters 84 and 85 (Default Rules)

- The main Chapter Rule (the default rule for products for which there is otherwise no special rule) for both HS Chapters 84 and 85 is the same. It combines Change of Tariff Heading (CTH) with value addition, but also allows for pure value addition as an alternative.
- The rule looks as follows:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex Chapter 84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof; except for: <i>[special rules follow, see below] (...)</i>	Manufacture: - from <i>[non-originating]</i> materials of any heading, except that of the product - in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 30 % of the ex-works price of the product
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: <i>[special rules follow, see below] (...)</i>	Manufacture: - from <i>[non-originating]</i> materials of any heading, except that of the product - in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 30 % of the ex-works price of the product

- This means: There are in principle two alternative ways of achieving ‘originating’ status for electrical equipment products (unless a special rule applies to a specific product).
- First alternative: Two conditions need to be fulfilled. First, all ‘non-originating’ inputs (that is: foreign inputs from countries with which there is no cumulation of origin) must fall under a different HS heading than the product itself (Change of Tariff Heading – CTH). Second, those ‘non-originating’ inputs must not account for more than 40 % of the final value – the ex-works price – of the product. Important: Both conditions apply together (cumulatively), that means: both must be satisfied at the same time.
- Second alternative: Electrical equipment products are also ‘originating’ if all ‘non-originating’ inputs account for not more than 30 % of the final value – the ex-works price – of the product. This means that a stricter limitation on the value of ‘non-originating’ input materials applies – but in turn it is the only condition to be met. The HS Heading of the input materials does not matter, it can be the same as that of the final product.

(2) Other Product-Specific Rules in Chapters 84 and 85

- These base Chapter Rules are modified by a large number of List Rules for specific products.
- These product-specific rules usually take one of three forms:
 - **Variation 1: Only value-addition, no CTH.** For some products a simple value-addition rule applies, usually allowing foreign (‘non-originating’) inputs to account for 40% or even 50% of the ex-works price. This is the case, for example, for computers and other office machines (HS 8469-8472), computer monitors and projectors (ex8528) and electrical insulated cables incl. optical cables etc. (HS 8544). The rule looks as follows (for example):

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
8544	Insulated (including enamelled or anodised) wire, cable (including coaxial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fibre cables, made up of individually sheathed fibres, whether or not assembled with electric conductors or fitted with connectors	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product	

- **Variation 2: Two value-addition criteria combined (a simple alternative).** A second type of rule, which is found quite often, is a ‘double-stitched’ value addition rule. Like a normal, simple value-addition rule it first requires that the value of the foreign (‘non-originating’) materials does not exceed a certain percentage (usually 40%) of the ex-works price. *In addition* (cumulatively), however, the rule requires that the value of certain types of inputs (products falling under certain Headings) inputs from a certain HS Heading just not be greater than a certain – usually low, e.g. 10% – percentage of the ex-works price. Alternatively (→ Column 4) a simple value-addition rule can be applied with a lower allowance for inputs (e.g. 25% or 30%), but in turn without any further conditions. Two examples:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
8502	Electric generating sets and rotary converters	Manufacture: - in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of headings 8501 and 8503 used does not exceed 10 % of the ex-works price of the product	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 30 % of the ex-works price of the product

8537	Boards, panels, consoles, desks, cabinets and other bases, equipped with two or more apparatus of heading 8535 or 8536, for electric control or the distribution of electricity, including those incorporating instruments or apparatus of Chapter 90, and numerical control apparatus, other than switching apparatus of heading 8517	Manufacture: - in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of heading 8538 used does not exceed 10% of the ex-works price of the product	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 30 % of the ex-works price of the product
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- **Variation 3: Maximum value of ‘non-originating’ inputs defined in two ways (plus simple value addition alternative).** A third variation is really a special version of the second variation, see above: Again two value-addition conditions apply together (cumulatively). The first is the same as above: a maximum percentage of ‘non-originating’ inputs, in terms of value, as measured against the ex-works price (e.g. 40% of the ex-works price). The second condition requires *in addition* that the value of the ‘non-originating’ materials is not greater than that of the originating materials. This rule applies, for example, to sound or video recording and reproducing apparatus (HS 8519, 8521). Alternatively (→ Column 4) a simple value-addition rule can be applied with a lower allowance for inputs (e.g. 25% or 30%), but in turn without any further conditions. Two examples:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
ex8518	Microphones and stands therefor; loudspeakers, whether or not mounted in their enclosures; audio-frequency electric amplifiers; electric sound amplifiers	Manufacture: - in which the value of all the <i>[non-originating]</i> 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 <i>[non-originating]</i> materials used does not exceed 25 % of the ex-works price of the product

8519	Sound recording and sound reproducing apparatus	Manufacture: - in which the value of all the <i>[non-originating]</i> 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 <i>[non-originating]</i> materials used does not exceed 30 % of the ex-works price of the product
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- **Further variations:** A few List Rules within Chapters 84 and 85 use specific processes as alternative ways to obtain origin. This is the case, for example, for smart cards with (only) one integrated circuit (ex8523 - see (3) below). Another few further combine CTH with double value addition (e.g. refrigerators and freezers – HS 8418).

(3) Mix of Rules Illustrated: Data Storage Media

- The above 'mix' of rules is nicely illustrated by a look at the rules applicable to storage media – from tapes and discs to flash drives and smart cards. These are all covered by HS Heading 8523:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)

8523	Discs, tapes, solid-state non-volatile storage devices, 'smart cards' and other media for the recording of sound or of other phenomena, whether or not recorded, including matrices and masters for the production of discs, but excluding products of Chapter 37: – Unrecorded discs, tapes, solid-state non-volatile storage devices and other media for the recording of sound or of other phenomena, but excluding products of Chapter 37; – Recorded discs, tapes solid-state non-volatile storage devices and other media for the recording of sound or of other phenomena, but excluding products of Chapter 37 - Matrices and masters for the production of discs, but excluding products of Chapter 37; - Recorded discs, tapes solid-state non-volatile storage devices and other media for the recording of sound or of other phenomena, but excluding products of Chapter 37 - Matrices and masters for the production of discs, but excluding products of Chapter 37; Proximity cards and 'smart cards' with two or more electronic integrated circuits 'Smart cards' with one electronic	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product (Variation 1: Pure value-addition rule) Manufacture: - in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of heading 8523 used does not exceed 10 % of the ex-works price of the product (Variation 2: Two value addition criteria combined) <i>[same rule as above]</i> <i>[same rule as above]</i> <i>[same rule as above]</i> Manufacture: - from <i>[non-originating]</i> 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 (same as Chapter Rule) Manufacture: - in which the value of all the	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 30 % of the ex-works price of the product <i>[same rule as above]</i> <i>[same rule as above]</i> <i>[same rule as above]</i> Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 30 % of the ex-works price of the product Manufacture in which the value
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	integrated circuit	<i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of headings 8541 and 8542 used does not exceed 10 % of the ex-works price of the product (Variation 2 again) or The operation of diffusion, in which integrated circuits are formed on a semi-conductor substrate by the selective introduction of an appropriate dopant, whether or not assembled and/or tested in a country with which there is no cumulation of origin (Specific processing alternative)	of all the <i>[non-originating]</i> materials used does not exceed 25 % (different value than usual 30%) of the ex-works price of the product
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4.6.3. What are the main issues to watch out for?

- Clearly the dominant feature of the List Rules for electrical equipment is value addition. In all but a few cases ‘pure’ value addition is a possibility, if not as the main rule so at least as an alternative to more complicated (but sometimes more permissive) rules.
- Change of Tariff Heading (CTH) is rarely important. But sometimes inputs from a certain Heading – usually that of the final product, but sometimes also others – must not go above a certain value to satisfy the more permissive rule. But often an alternative pure value-addition rule is available, but with lower thresholds (25% or 30%).
- There are a great number of product-specific rules – make sure to double check before you settle for the general Chapter Rule!

4.6.4. Examples/Exercises

Reminder: The Basic Mechanics

1. Check whether origin matters for your business – is there a tariff preference you or your customer are planning to use? If yes:
2. Check whether the product is “wholly obtained” in Lebanon. If not:
3. Check the HS heading and apply the List Rules. Make sure to apply ‘cumulation’ where it fits: inputs from cumulation partner countries count as ‘originating’, just like local inputs.
 - a. Four basic mechanisms (sometimes variations), alone or in combination:
 - i. Wholly Obtained (not really a List Rule, but you find it in the lists, and where it applies, the General Tolerance Rule can help you!)
 - ii. Change of Tariff Heading (CTH)
 - iii. Value Addition (maximum value share of foreign – ‘non-originating’ – inputs
 - iv. Specific Processing
 - b. Two exceptions
 - i. Permissive: General Tolerance Rule (10% non-originating inputs, but beware of limitations)
 - ii. Restrictive: Minimal operations (“insufficient working or processing”) excluded *even if the list rule is satisfied* (e.g. when value addition)

Example 1. Electric Generating Set

The Situation

GenerationLebanon, a producer of electrical equipment, produces electric generating sets. The ex-works price per unit is USD 10000. Many of the machines are destined for export to Norway, an EFTA country. The company uses the following foreign input materials:

Materials used:	Origin:	HS:	Value:

Steel plates	China	7209	USD 1000 per unit
Diesel engines	USA	8408	USD 2000 per unit
Electrical parts	EU	Misc. 85 (not 8503)	USD 1000 per unit
Stator package	EU	8503	USD 1100 per unit

The Analysis

- The generators are obviously not ‘wholly obtained’ in Lebanon
- They fall under HS 8502.13. There is a specific List Rule for this Heading.
- The rule (→ reproduced above, as one of the examples of Variation 2) provides for two alternative possibilities to obtain Lebanese origin:
 - Alternative 1: The value of the foreign (‘non-originating’) materials does not exceed 40% of the ex-works price. *In addition* (cumulatively), however, the rule requires that the value of input products falling under HS Headings 8503 (“Parts suitable for use solely or principally with the machines of heading 8501 or 8502”) cannot be greater than 10% of the ex-works price.
 - Alternative 2: Alternatively (→ Column 4) a simple value-addition rule can be applied with a lower allowance for inputs (30%), but in turn without any further conditions.
- Here the total value of foreign inputs is USD 5100, that is, 51% of the ex-works price of USD 10000. This would normally mean that both alternatives are not satisfied (40% or 30% foreign input by value). Further, as foreign goods of a value EUR 1’100 (= 11%) stem from HS Heading 8503, the second condition of the first alternative (max. 10% from HS 8503) would also be violated.
- However, inputs of USD 2100 come from the EU – what about *cumulation* of origin? Cumulation could indeed help, but only in the future. At present – *without* application of the PEM convention in the EFTA-Lebanon and EU-Lebanon agreements – the EU origin of the goods will not help as the final products are exported to Norway (EFTA), not the EU. The result would be different if the goods were from an EFTA state, as then the so-called bilateral cumulation between EFTA and Lebanon would apply. It would also be different today for the same generators if exported to the EU – again, bilateral cumulation under the EU-Lebanon agreement would apply.
- However, in the future, when the PEM rules of origin and rules of cumulation begin to apply between Lebanon, EFTA and the EU, the situation will be different, as diagonal cumulation in the triangle EU-EFTA-Lebanon will apply. Because of this diagonal cumulation, EU origin products would be considered as ‘originating’, hence fall outside the application of the List Rules, which – remember – are only concerned with what needs to happen to ‘non-originating’ inputs.

- So once diagonal cumulation under PEM rules will apply, the result here will be different: All foreign inputs would together account only for 30% of the ex-works price (satisfying both alternative value addition requirements – 40% and 30%. Further, because specifically the stator package from the EU would also be considered ‘originating’, the generators would not contain any ‘non-originating’ products of HS Heading 8503. This means that also the second criterion of the first alternative rule – maximum 10% of HS 8503 – would be satisfied (0%).

Example 2. Winding Wire of Copper (Magnet Wire)

The Situation

The company *BeirutElectrics* produces winding wire of copper (magnet wire), which it exports to Switzerland. The ex-works price is USD 10.00 per unit. The sourcing looks as follows:

Materials used:	Origin:	HS:	Value:
Wire of copper	EU	7408	USD 3.00 per unit
Lacquer for insulation	China	3818	USD 0.50 per unit

Will the winding wire be considered to be of Lebanese origin?

The Analysis

- The product is not ‘wholly obtained’
- The product falls under HS 8544.11. There is a special List Rule Heading 8544, a simple value-addition requirement. ‘Non-originating’ inputs must not account for more than 40% of the ex-works price. (Note that the HS Heading of the inputs is irrelevant.)
- Here all foreign inputs together account only for 35% of the final value. The List Rule is satisfied, the winding wire has Lebanese origin.
- This means: There is at this stage no need to check for cumulation as the List Rule is in any case satisfied. But it will still be useful to watch out for cumulation possibilities in the future, as the PEM rules become applicable. As prices of inputs may go up and the competition on the market for winding wires may increase, pushing prices down, the share of foreign inputs may easily climb above 40%!

Example 3. Smart Card

The Situation

SmartLebanon produces smart cards for export to Turkey. The ex-works price is USD 10.00 per unit. It sources all of its inputs from foreign suppliers:

Materials used:	Origin:	HS:	Value:
Card without chip	USA	3926	USD 1.00 per unit
Chip	Norway	8542	USD 2.00 per unit

Magnetic strip	Switzerland	8523	USD 1.00 per unit
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Does the smart card have Lebanese origin when exported to Turkey?

The Analysis

- The smart cards are not ‘wholly obtained’ in Lebanon.
- The smart cards fall under HS 8523.52. The Heading 8523 has a product-specific List Rule, consisting of a whole series of different conditions for different products under this Heading. The List Rule is reproduced above (Section 4.6.2). Take a look!
- There are in fact *two rules for smart cards* - one for smart cards with two or more electronic integrated circuits, one for smart cards with only one integrated circuit. We don’t know which type of card we are dealing with here - so let’s see what the two rules say:
- **The first rule for ‘proximity cards and smart cards’ with two integrated circuits** has two alternatives. The first one says:

Manufacture:

- from *[non-originating]* 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

- This rule is apparently not satisfied because the magnetic strip from Switzerland falls under HS Heading 8523. The first part of the requirement - change of tariff heading - is thus not met. However, the General Tolerance Rule would help here: Remember that Article 5.2 allows for 10% of foreign inputs in violation of the List Rules (provided overall percentage limits are not breached). The Swiss magnetic strips amount to exactly 10% (USD 1 out of USD 10 ex-works price). The first part of the rule would thus be satisfied - but just so! If the Swiss provider increases his price by just a cent, *SmartLebanon* could be in trouble. However, this will of course be different once PEM cumulation rules apply in the triangle Turkey-Lebanon-EFTA. At that point the Swiss magnetic strip (and of course the chip from Norway) would be considered ‘originating’ inputs, and the rule would be easily satisfied in any case.
- Also the second element of the first alternative requirement would be satisfied - but again only just so. All foreign inputs account for exactly 40%. Again, in the future, cumulation will help a lot: Because the Swiss and Norwegian inputs will be considered as ‘originating’, there would only be 10% ‘non-originating’ inputs (cards from USA).
- The second alternative is a pure value-addition rule:

Manufacture in which the value of all the *[non-originating]* materials used does not exceed 30 % of the ex-works price of the product

- Here the foreign inputs account for 40% - but could the General Tolerance Rule help, by allowing us to go 10% beyond what the List Rule says? The answer is no! The General Tolerance Rule in Article 5.2 does allow for 10% foreign inputs in violation of List Rule requirements, but only with the proviso that “the percentages

given in the list for the maximum value of non-originating materials are not exceeded.” This means that the General Tolerance Rule does not help with value addition requirements. The rule would thus not be satisfied here. Again, of course, everything will be different once cumulation in the triangle EFTA-Lebanon-Turkey applies: Because the Swiss and Norwegian inputs will be considered as ‘originating’, there would only be 10% ‘non-originating’ inputs (cards from USA).

- But what if the smart card has only one integrated circuit? The rule for this product in fact has *three* alternatives, one in Column (4), two in Column (3) (separated by ‘or’):

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
[ex8523]	- ‘Smart cards’ with one electronic circuit	Manufacture: - in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of headings 8541 and 8542 used does not exceed 10 % of the ex-works price of the product or The operation of diffusion, in which integrated circuits are formed on a semi-conductor substrate by the selective introduction of an appropriate dopant, whether or not assembled and/or tested in a country with which there is no cumulation of origin	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 25 % of the ex-works price of the product

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- Here the first element of the first alternative – maximum 40% ‘non-originating’ input – would be satisfied. However, the second element would not, because the chip from Norway of HS Heading 8542 with its value of USD 2.00 accounts for 20% of the ex-works price, hence more than the allowed 10%. The product would at this stage not acquire Lebanese origin for purposes of exports to Turkey. But again, with PEM cumulation in the triangle EFTA-Turkey-Lebanon this will work in the future because the chip from Norway would be ‘originating’ and hence fall outside of the List Rule. With PEM cumulation the smart cards would thus be considered to be of Lebanese origin.
- Whether the second alternative – still in Column (3): the specific process of “The operation of diffusion...” – is satisfied is not entirely clear. The answer would require more technical insight into the production process. (Here, however, it seems that *SmartLebanon* is buying the chips ready-made, so probably the answer is no.)

- The third alternative, the pure value-addition criterion in Column (4), would not be satisfied, as the foreign inputs amount to 40%. The result will be different, of course, with cumulation – only the 10% for the raw card from the United States would count as ‘non-originating’ input, hence comfortably within the 25% allowed.

Example 4. Electric Control Board

The Situation

The company *BeirutElectrics* produces electric control boards for export to Iceland, an EFTA country. The ex-works price per unit is USD 100. Materials used:

Materials used:	Origin:	HS:	Value:
Hard rubber case	Lebanon	4017	USD 10 per unit
Plastic parts	China	3926	USD 2 per unit
Electrical parts	EU	8535, 8536, 8544	USD 20 per unit

Are the control boards considered ‘originating’ in Lebanon when they reach Iceland?

The Analysis

- The electric control boards are not ‘wholly obtained’
- The product is covered by HS Heading 8537 (“Boards, panels, consoles...for electric control...”). There is a specific List Rule for this Heading, reproduced above as one of the examples for the second type of special rules. Here it is again for your convenience:

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3)	(4)
8537	Boards, panels, consoles, desks, cabinets and other bases, equipped with two or more apparatus of heading 8535 or 8536, for electric control or the distribution of electricity, including those incorporating instruments or apparatus of Chapter 90, and numerical control apparatus, other than switching apparatus of heading 8517	Manufacture: - in which the value of all the <i>[non-originating]</i> materials used does not exceed 40 % of the ex-works price of the product, and - within the above limit, the value of all the <i>[non-originating]</i> materials of heading 8538 used does not exceed 10% of the ex-works price of the product	Manufacture in which the value of all the <i>[non-originating]</i> materials used does not exceed 30 % of the ex-works price of the product

- Does the product satisfy first alternative rule (Column (3)? The first element – maximum 40% foreign input – is satisfied. The value of the materials from China and the EU amounts only to 22% of the ex-works price. The second one is as well – no parts of heading 8538 seem to be used. (However, this finding is worth a second look – since HS 8538 groups all ‘boards, panels, etc.’ without the electrical equipment mounted and hence goods that are usually used as inputs, *BeirutElectric* should check again whether it indeed does not use any such inputs from foreign sources, which may have been misclassified by its procurement department or its suppliers and may be included in the inputs from the EU, for example.)
- However: Because the second alternative in Column (4) – the pure value addition rule allowing for a maximum of 30% foreign inputs – would be satisfied in any case, the boards will acquire Lebanese origin anyway.

4.7. Food and other Agricultural Products

A Word of Caution: Some Rules May Change

The point of this manual and this section is to make users familiar with how the main concepts and key mechanics work. The descriptions, examples and exercises below are based on the rules as they stand at the time of drafting. Users should keep in mind that negotiations are taking place to amend the PEM Convention. Some rules may thus change, which of course might affect the result of some examples/exercises.

4.7.1. What's special?

- Food (and feed) products are agricultural products. As such they enjoy much attention from consumers and policy makers.
- Rules of origin such as those in the PEM Convention reflect this. Some rules are relatively strict – but some are also very liberal (e.g., those for coffee and tea).
- A number of List Rules in this sector require products to be 'wholly obtained'. In other words: They do not allow for any foreign inputs – or almost: Because the General Tolerance Rule applies to the List Rules, it also allows for 10% foreign inputs into products where the List Rule otherwise requires all inputs to be 'wholly obtained'. This applies, for example, to "Cereals" (Chapter 10) or "Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder" (Chapter 12).
- *Origin labelling* of food products plays an important role for consumer information and consumer protection purposes. Keep in mind, however, that origin labelling ("Made in Lebanon") has in fact nothing to do with rules of origin for purposes of trade preferences (duty-free treatment). It may be allowed or even required to label a meat product, for example merguez sausages, "Origin: Lebanon" in supermarkets in Belgium, Germany, or Switzerland, but the sausages may still not qualify as being of 'Lebanese origin' for purposes of customs duty treatment as they contain 20% meat from cows imported alive into Lebanon for slaughter there, in violation of the List Rule for HS Chapter 2 (see Annex).

Special Case: Food in EFTA's Agreements

In the EFTA-Lebanon FTA, like in other agreements concluded by EFTA, agricultural products – except specifically listed processed ones – are dealt with outside the main agreement and covered by bilateral "Agricultural Agreements" between Lebanon and the individual EFTA states. These agreements apply alongside the EFTA-Lebanon agreement.

The Agricultural Agreements currently do not only cover individual sets of products, but also contain their own individual rules of origin for those products. These rules sometimes correspond to the PEM rules, sometimes not.

Economic operators are encouraged to consult the EFTA webpage as to which rules are applicable, as EFTA is in process of adapting their agreements. When in doubt, stakeholders should contact the EFTA States customs authorities for information. Links to their websites can be found in the final section of this manual.

4.7.2. What are the main rules to keep in mind, what the issues to watch out for?

- A wide variety of List Rules applies to food and feed products under Chapters 1 – 23. *Because of their variety and importance the rules are fully reproduced in Annex 1 – take a look!*
- For many products the use of 'non-originating' inputs from the same chapter is very limited. As indicated, for some products this goes so far as to require that only 'wholly obtained'

inputs from that chapter (in the case of meat: even also another chapter namely Chapter 1 – live animals) are used.

- A specific sensitivity applies to sugar (historically this has to do with the EU sugar industry's need for trade protection). Many rules for various products limit the value of 'non-originating' sugar that can be used in their production (for example: jams and jellies, HS 2007; fruit juices, HS 2009; misc. food preparations, HS 2106; etc.).
- Some rules combine three or even more criteria (e.g. cereal preparations, HS 1904).
- Some rules are rather hard to read, e.g. "undenatured ethyl alcohol...", HS 2207 and 2208.

4.7.3. Examples/Exercises

Note: Because of the special provisions for agricultural products in the EFTA-Lebanon relationship (see box above) the examples / exercises in this sector primarily focus on the EU as a destination market or source, as the substantive rules contained in the PEM Convention largely already today apply in the EU-Lebanon Agreement, while in the relationship with EFTA states the situation is a bit more complicated. In some cases the current situation is explained to illustrate the point. The situation will probably change soon, however, and PEM rules will apply also in the relationships between Lebanon and the EFTA countries. The examples / exercises should be read with that perspective in mind: wherever EU Member States appear as sources or destinations, the same would apply in future if they were EFTA countries.

Example 1. Assortment of Seeds and Nuts With Added Sugar

The Situation

The company *NuttyBeirut* produces sophisticated mixtures of nuts and seeds. Some contain added sugar, used in parts of the production process. The inputs come mostly from abroad:

Materials used:	Origin:	HS:	Value:
Melon seeds	Jordan	1207.70	USD 0.22
Pistachio nuts	Turkey	0802	USD 0.41
Cashew nuts	Benin	0801	USD 0.10
Molasses (sugar)	Pakistan	1703	USD 0.04

The ex-works price is USD 1.00 per unit: Will the assortment obtain 'originating' product status for export to Switzerland (an EFTA country) and Germany (an EU Member State)?

The Analysis

- The assortment is not wholly obtained.
- The product falls under HS 2008.
- Consider first exports to Germany, i.e. an EU Member State. There is a product-specific List Rule "ex2008" which covers "Nuts, not containing added sugar or spirits". This rule does

not apply because the mixture does contain added sugar, resulting from processes performed on some of the nuts. This rule is the same in the PEM convention and the current EU-Lebanon Agreement.

- This means that the general Chapter Rule (ex Chapter 20) applies. That rule requires *“Manufacture in which all the fruit, nuts or vegetables used are wholly obtained.”* This would clearly not be the case here, as all the nuts are imported.
- Under PEM cumulation rules *cumulation of origin* will be possible with Jordan and Turkey. If PEM cumulation were applied here, treating nuts from Jordan and Egypt as ‘originating’, there would still be USD 0.10 worth of cashew nuts from Benin in every unit (bag) with an ex-works price of USD 1.00. This would in principle violate the Chapter Rule.
- However, here the General Tolerance Rule in Article 5.2 can help. Because the nuts from Benin account for exactly 10% of the ex-works price, they could be included, but only just so!
- The situation is a bit simpler for (current) exports to Switzerland. The current bilateral Agricultural Agreement between Lebanon and Switzerland (recall that the collective EFTA-Lebanon agreement does not apply to many food and other agricultural products – see box above) contains a simple value-addition rule for HS Chapter 20: *“Manufacture in which the value of all the [non-originating] materials used does not exceed 50% of the ex-works price of the product”*. Here the foreign inputs account for 77% of the value of the mixture, so the conditions are not fulfilled. (If and when the PEM rules are extended also to the Lebanon-Switzerland agreement, the situation will be the same as for exports to Germany described above).

Example 2. Assortment of Seeds and Nuts Without Added Sugar

The Situation

NuttyBeirut also produces a very similar mixture, but without adding any sugar. The inputs are the same as in Example 1, but without the molasses from Pakistan:

Materials used:	Origin:	HS:	Value:
Melon seeds	Jordan	1207.70	USD 0.22 per unit
Pistachio nuts	Turkey	0802	USD 0.41 per unit
Cashew nuts	Benin	0801	USD 0.10 per unit

Does the mixture – ex-works price of USD 1.00 per unit – obtain Lebanese origin under PEM rules?

The Analysis

- In this case the specific List Rule “ex2008” for “Nuts, not containing added sugar or spirits” applies.
- The rule foresees *“manufacturing in which the value of all the originating nut and oil seeds of headings 0801, 0802 and 1202 to 1207 used exceeds 60% of the ex-works price of the*

product.” This is a very special value-addition rule. Remember that usually value addition rules prescribe the *maximum* value of ‘non-originating’ inputs. This leaves open how the domestic value is added – this could be through further input materials, services, processing steps, advertising overheads, profits etc. The rule here turns this mechanism around and instead requires a minimum of (more than) 60% of ‘originating’ nuts and oil seeds by value. This means that foreign inputs in fact cannot reach 40%, as various other costs would have to be included in any case.

- In this example the nuts from Turkey, Jordan and Benin together account for 73% of the ex-works price; no nuts obtained locally are included. The rule however would be satisfied *with cumulation* under PEM rules. This is because once PEM cumulation applies the nuts from Turkey and Jordan will be considered ‘originating’. This means that 63% of the nuts will be ‘originating’, satisfying the List Rule. In that case the products would be Lebanese.

Example 2. Red Wine

The Situation

Caves du Liban, a Bekaa-based wine producer, makes a wine for export to several EU Member States and Switzerland (an EFTA country) with grapes (HS 0806) imported from Turkey. Will the wine obtain ‘originating’ status in Lebanon?

The Analysis

- The wine is not wholly obtained.
- The wine falls under HS Heading 2204. There is no specific List Rule for this Heading – the general Chapter Rule applies, which reads:

Manufacture - from materials of any heading except that of the product, and - in which all the grapes or materials derived from grapes used are wholly obtained

- The first element would be fulfilled here (CTH), but the second would not: The grapes are not wholly obtained in Lebanon.
- Under PEM cumulation rules, however – once they apply in the triangle Lebanon-Turkey-EU – the grapes from Turkey would be considered ‘originating’. The wine would thus be produced entirely from ‘originating’ inputs. The List Rule would not apply.
- For exports to Switzerland the same rule would in principle apply. However, wine does not enjoy reduced customs duties under the bilateral Agricultural Agreement between Lebanon and Switzerland, so *Caves du Liban* should not worry about origin. Whether the wine is originating from Lebanon or not, it will in any case be treated the same when entering Switzerland and attract MFN duties.

Example 3. Traditional Soft Drinks: Jallab - جلاب

The Situation

Levantine, a producer of non-alcoholic beverages, produces Jallab for export, with the following foreign inputs:

Materials used:	Origin:	HS:	Value:
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Cane sugar	Brazil	1701	USD 0.02 per unit
Rose water	Germany	2202.10	USD 0.02 per unit
Dates (for date syrup)	Saudi Arabia	0804.10	USD 0.01 per unit

The remaining inputs, such as grape molasses and carob, come from Lebanon. The ex-works price is USD 0.09 per unit: Will the beverage obtain ‘originating’ status?

The Analysis

- The Jallab is not wholly obtained.
- Jallab would appear to fall under the List Rule for HS 2202 (*“Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices of heading 2009”*).
- The rule is interesting and challenging: It applies three requirements cumulatively: Change of Tariff Heading (CTH), a special value-addition criterion and a special originating rule for certain inputs:

Manufacture

- from materials of any heading except for that of the product,
- in which the value of materials of Chapter 17 (sugars and sugar confectionery) does not exceed 30% of the ex-works price, and
- fruit juices used, except for pineapple, lime and grapefruit, are originating

- Here the rose water falls under heading 2202, the same as the final product. But because the rose water comes from Germany bilateral cumulation applies (both today under the applicable origin protocol of the EU-Lebanon Association Agreement and in the future under the PEM-Convention). The other foreign inputs fall under different headings. The first element of the rule is thus fulfilled.
- The second element is equally fulfilled. The Brazilian sugar accounts for less than 30% of the value of the final product.
- The third element may seem tricky. That’s because the date syrup stems from dates from Saudi Arabia. However, the dates are imported as fruits, and only in Lebanon transformed into syrup. The non-expert may wonder whether the syrup falls under fruit juices (2009) or rather under the various syrups under HS 1702. In both cases, however, the date syrup would have acquired Lebanese origin in the meantime because of a change in tariff heading (from HS 0804). The third requirement is also fulfilled.
- Note: even if the date syrup now falls under Chapter 17, it is no longer foreign, but has become ‘originating’ in Lebanon. The 30% maximum for ‘non-originating’ sugars would thus have been respected.
- The Jallab is of Lebanese origin.

Example 4. Fresh Potatoes

The Situation

BatataLubnanieh, a farm conglomerate in the Bekaa Valley, grows potatoes in Lebanon. The seed potatoes, however, are imported from Canada (HS 0701.10).

Will the potatoes obtain “originating status”?

The Analysis

- The potatoes are “vegetable products harvested there”, and as such ‘wholly obtained’ according to Article 4.1 (b).
- But what about the fact that the seed potatoes come from Canada? The List Rule for Chapter 7 requires “*manufacture in which all the materials of Chapter 7 used are wholly obtained*”. Does this apply to the seed potatoes?
- No. The origin of the seed potatoes is not relevant. The List Rule does not even come into play. Article 5.1 indicates clearly that they only apply to “products which are not wholly obtained.”

Example 5. Garlic Sauce

The Situation

Spicy Beirut produces a popular garlic sauce which it also exports to various countries, including EFTA and EU countries. The materials used are:

Materials used:	Origin:	HS:
Garlic	China	0703
Canola oil	Syria	1514
Salt	India	2501

Will the sauce obtain ‘originating’ product status?

The Analysis

- The garlic sauce falls under HS 2103.90.
- It is not wholly obtained.
- The applicable rule in the PEM Convention is the specific rule for HS Heading 2103: “*Manufacture from [non-originating] materials of any heading, except that of the product*” – a standard CTH rule.
- None of the materials used are classified under the same heading as garlic sauce. The rule is satisfied. The garlic sauce obtains ‘originating status’. This also applies to current exports to the EU under the EU-Lebanon Agreement.
- For EFTA markets the current situation is a bit complicated. For Switzerland and Norway HS the garlic sauce appears to be listed as a processed agricultural product covered by the main EFTA-Lebanon FTA, so the general rules of origin protocol – which contains the same rules as

in the PEM Convention - applies. For Iceland the product is neither covered by the main EFTA-Lebanon agreement nor by the Lebanon-Iceland Agricultural Agreement, so the question of preferences and hence rules of origin does not arise – the garlic sauce will in any case attract the normal MFN tariff.

Example 6. Chocolate

The Situation

TastyBeirut produces popular chocolates in various forms. The materials used are:

Materials used:	Origin:	HS:
Milk	Lebanon	0401
Sugar	Brazil	1701
Cocoa butter	Indonesia	1804
Pistachio nuts	Syria	0802

The ex-works price is USD 1.00 per unit. What rules apply? In order for the chocolate to obtain 'originating' product status, what is the maximum, possible value (in USD) of the Brazilian sugar inputs?

The Analysis

- The product is not wholly obtained.
- It is classified under HS 1806.32.
- There is no product-specific rule for this Heading. This means: The applicable rule is the general Chapter Rule for HS Chapter 18: *"Manufacture (1) from [non-originating] materials of any heading, except that of the product, (2) in which the value of all the [non-originating] materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product."*
- The rule thus applies cumulatively CTH and a value-addition requirement.
- As for CTH, none of the materials fall under the same heading that the product. The CTH rule is satisfied.
- To satisfy the value-added rule the materials from Chapter 17 – *'Sugars and sugar confectionery'* – must not exceed 30 % of the ex-works price.
- To obtain 'originating status' with the ex-works price of USD 1.00, the maximum value of (non-originating') sugar must not be more than USD 0.33.

Example 7. Prepared and Pickled Cucumbers and Gherkins

The Situation

Veggie Lebanon produces fresh preparations of cucumbers and gherkins as well as pickled ones using the following inputs:

Materials used:	Origin:	HS:
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Fresh gherkins	Mexico	0707
Fresh cucumbers	Turkey	0707

Will the products – pickled and non-pickled – obtain “originating status” for the purpose of exporting to EFTA and EU countries?

The Analysis

- The fresh preparations of cucumbers and gherkins are classified under HS 2005.99.10.
- They are obviously not wholly obtained – all the cucumbers and gherkins are imported.
- The applicable rule is the general Chapter Rule “ex Chapter 20” (*Preparations of vegetables, fruit, nuts or other parts of plants*) that requires ‘*Manufacture in which all the fruit, nuts or vegetables used are wholly obtained*’.
- The rule is obviously not fulfilled. But: In future, once PEM cumulation applies with Turkey, EFTA and the EU, materials from Turkey will be considered as ‘originating’ when used as inputs for exports to EFTA and the EU. However, materials from Mexico will still be foreign, so as long as the gherkins come from Mexico the rule will not be satisfied for products containing them.
- But: The General Tolerance Rule may help if the value of the fresh gherkins from Mexico does not exceed 10 % of the ex-works price of prepared cucumbers and gherkins. The product will obtain ‘originating’ status only if this strict rule is satisfied.

What about the pickles – does the same result apply?

- The pickled cucumber and gherkins fall under HS 2001 (*Vegetables, fruits, nuts...preserved by vinegar or acetic acid*).
- There is a List Rule for “ex2001” that is significantly more lenient than the Chapter Rule: There only needs to be a Change of Tariff Heading (CTH). This would be satisfied here.
- However, the “ex2001” rule only applies to a subgroup of products under the Heading, namely ‘*Yams, sweet potatoes and similar edible parts of plants containing 5% or more by weight of starch...*’. Here the cucumbers and gherkins do not qualify. They don’t reach 5% of starch content, so the pickled cucumbers and gherkins as well fall under the same Chapter Rule as the fresh preparations. The same result as for the non-pickled version of the product applies.

(When exported to EFTA countries, the two products currently do not enjoy any preferential duties, because they are neither covered by the bilateral Agricultural Agreements nor by the main EFTA-Lebanon agreement. As long as this remains the case, producers and exporters need not worry about origin, except to the extent that their customers plan to use their product as inputs and needs to apply cumulation – this may become possible in the future).

Example 8. Refined Sugar

The Situation

The Beirut-based company *RefinedBeirut* produces plain refined sugar from imported raw sugar. The materials used are:

Materials used:	Origin:	HS:	Price:
Raw sugar	EU	1701	USD 100 / t
Raw sugar	India	1701	USD 45 / t

Does the refined sugar acquire Lebanese origin?

The Analysis

- Refined sugar is classified under HS 1701.99.10.
- The product here is obviously not wholly obtained.
- There is a specific rule for “ex1701” that applies to “*cane or beet sugar and chemically pure sucrose, in solid form, containing added flavouring or colouring matter*”.
- It is likely that the raw sugar is indeed from either beet or cane (most sugar is). However, here the product is simply refined sugar. The “ex1701” rule only concerns sugar containing added flavouring or colouring. This is not the case here.
- The applicable rule is therefore the general “ex Chapter 17” rule, a standard CTH rule: “*Manufacture from [non-originating] materials of any heading, except that of the product*”.
- Here all the input materials are classified under the same heading that the product, the CTH rule is technically not satisfied.
- However, under EU-Lebanon bilateral cumulation, the raw sugar from the EU is considered to be ‘originating’, so the List rule does not apply to refined sugar exported to the EU. If and when the PEM cumulation rules in the future apply in Lebanon’s trade agreements with the EU and third countries (and between those third countries and the EU), the cumulation would also work for exports to these three countries.
- The remaining challenge is the sugar from India. Refining it will never satisfy the List Rule. But it is worth checking whether the General Tolerance Rule of 10 % may help. If the raw sugar from India does not exceed this percentage, the product may obtain ‘originating status’. Because of the significant price difference (in this fictional example – the reality is usually different as sugar is a commodity), it may be useful to use 10% Indian sugar in any case.

Example 10. “Extra Flour” of the FlourPower Mills

The Situation

FlourPower produces extra flour using the following materials:

Materials used:	Origin:
Hard wheat	Canada

What is the HS code for hard wheat? Will this "extra flour" obtain "originating status"?

The Analysis

- The extra flour is classified under HS 1101.
- It is not wholly obtained.
- The applicable rule is the general ex Chapter 11 rule, because no specific rule for the product exists.
- The rule says: Manufacture in which all the cereals, edible vegetables, roots and tubers of heading 0714 or fruit used are wholly obtained.
- The task is thus to check: Does the hard wheat used fall under one of these products? Hard wheat is classified under HS 1001: *Wheat and meslin*. This means it falls under Chapter 10: *Cereals*. Therefore, the hard wheat is a cereal and would need to be wholly obtained (or otherwise originating) according to the applicable List Rule.
- The hard wheat here is imported from Canada and is this not wholly obtained. The rule is not satisfied.
- But Lebanon itself produces little wheat. Can mills use imported wheat at all? Does the List Rule requirement that cereals as inputs must be 'wholly obtained' exclude also cereals from cumulation countries? No. The List Rule only apply to 'non-originating' materials – see Article 5, but also the header line above columns 3 and 4: *"Working or processing, carried out on non-originating materials, which confers originating status"*. In other words: If your input is already 'originating' – that means: either from Lebanon or from countries with which Lebanon applies cumulation –, the question doesn't even arise. Any future transformation maintains the 'originating' status. The only question is: Will the final product count as Lebanese, or will it have the origin of the cumulation partner country? That depends on whether the Lebanese contribution goes beyond 'insufficient working or processing.' If it does, the product is Lebanese. If it doesn't, the product acquires the origin of that cumulation partner country that has made the biggest contribution – see Article 3.
- That means: Once Lebanon starts applying the PEM Convention, in order for the extra flour to obtain 'originating status', the hard wheat for its production must be sourced from the PEM countries with which cumulation applies. In this case, it would be considered as wholly obtained and the rule would be satisfied.

Example 11. Prepared/Preserved Olives

The Situation

Olives of Lebanon produces prepared and preserved olives in jars. A highly attractive export market for the traditional product is the UK, where specialty food retailers are interested in Lebanese olives. The company is considering further exports to Switzerland, Turkey and the Western Balkans.

The inputs are:

Materials used:	Origin:	HS:
Fresh olives	Lebanon	0709.92

Fresh olives, provisionally preserved	Greece	0711.20
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The olives from both sources are usually mixed in the company's trademark mixtures. Will the prepared/preserved olives obtain 'originating' status?

The Analysis

- The product is classified under HS 2001.90.
- The olives from Lebanon are 'wholly obtained', but those from Greece are not. As a result the preparations are not 'wholly obtained'.
- The applicable rule is the Chapter Rule "ex Chapter 20": *"Manufacture in which all the fruit, nuts or vegetables used are wholly obtained"*.
- This is not fulfilled. However, to the extent that cumulation with Greece applies, it would mean that the Greek olives no longer have to undergo 'sufficient' processing.
- Currently bilateral cumulation applies in trade with the EU. This means that for exports to the EU the product would already qualify as originating in Lebanon.
- However, for exports to EFTA it would be necessary to first extent diagonal cumulation to – that is: incorporate the PEM rules into –the EU-Lebanon agreement (it is already foreseen in the EFTA-Lebanon FTA). Once that is done, the preserved olives would qualify as 'originating'.
- The same would apply to Turkey and the Western Balkan countries. Of course, for the latter cumulation would further require that Lebanon also concludes FTAs with them.

Example 12. Mixtures of Roasted Coffee from Raw (Unroasted) Coffee

The Situation

WakeUp! produces mixtures of roasted coffee for export to Switzerland, Iceland (both EFTA) and several EU countries using imported raw coffee as inputs:

Materials used:	Origin:	HS:
Raw coffee	Colombia	0901
Raw coffee	Peru	0901

Will the roasted coffee obtain "originating status"?

The Analysis

- Roasted coffee is classified under HS 0901.
- The product here is not 'wholly obtained'.
- The applicable PEM rule is the HS 0901 rule permitting *"manufacture from [non-originating] materials of any heading"*. (The same rule currently already applies in the Lebanon-

Switzerland and Lebanon-Iceland Agricultural Agreements as well as in the Lebanon-EU Agreement.)

- The materials and the final product here are classified under the same heading, but the rule permits this.
- The important thing to watch for is that working or processing must go beyond minimal operations. But the list of ‘insufficient working or processing’ operations in Article 6 is exhaustive. It does not contain roasting.
- The roasted coffee will obtain ‘originating’ status and can be exported as coffee of Lebanese origin.

Example 13. Mixtures of Roasted Coffee

The Situation

WakeUp! also produces mixtures of roasted coffee using already roasted coffee as inputs:

Materials used:	Origin:	HS:
Roasted coffee	Brazil	0901
Roasted coffee	Switzerland	0901

Will the roasted coffee obtain “originating status”?

The Analysis

- Mixtures (blends) of roasted coffee are classified under HS 0901.21.
- The roasted coffee is not wholly obtained.
- The applicable rule again is the very liberal rule under HS 0901: “*Manufacture from [non-originating] materials of any heading*”.
- The rule means that all non-originating materials, including those of the product’s heading, may be used. This is the case: coffee from Brazil and Switzerland is classified under the same heading as the mixture of roasted coffee. (Coffee from Switzerland would be considered ‘originating’ under the bilateral Lebanon-Switzerland agricultural agreement and hence qualify for bilateral cumulation now and diagonal cumulation in the future, but because the List Rule is already satisfied anyway, it makes no difference.)
- Again the rule appears to be satisfied. However, again it is important to recall that origin is obtained only if the working or processing goes beyond ‘insufficient working or processing’, Article 6).
- The simple mixing of products, whether or not of different kinds, is mentioned in the list of ‘insufficient working or processing’ operations in Article 6. The mere blending here would thus appear to be a minimal operation that does not grant Lebanese origin. A different outcome would be possible if the operation required a special skill or purpose-built tools. This would have to be checked against the actual production process at *WakeUp!*.

Example 14. Virgin Olive Oil**The Situation**

Olives of Lebanon also produces virgin olive oil for export to the EU from the following inputs:

Materials used:	Origin:	HS:
Oil from Batroun olives	Lebanon	1509.10
Olive oil	Syria	1509.10

Will the blended olive oil obtain 'originating' status?

The Analysis

- Virgin olive oil is classified under HS 1509.10.
- The applicable rule is 1507 to 1515 - *Vegetable oils and their fractions – Other*, because olive oil does not fall under other descriptions of this rule.
- The PEM rule is: *Manufacture in which all the [non-originating] vegetable materials used are wholly obtained.*
- Lebanese oil from Batroun olives is wholly obtained. Olive oil from Syria is not, but it would be considered 'originating' once the PEM cumulation rules apply in the EU-Lebanon, EU-Syria and Syria-Lebanon relationships. In that case the Syrian oil would not longer be subject to the List Rules.
- However, it is important not to forget that even with cumulation it would still have to undergo more than 'insufficient working or processing' to acquire Lebanese origin. Simple mixing would not be sufficient. However, in that case it would have to be assessed, based on which country has the highest ratio of inputs by value, whether the product has Lebanese or Syrian origin. In any case it would benefit from preferential access – again, assuming that diagonal cumulation applies between Lebanon, Syria and the export market.
- Thus: At present the blended oil would not acquire Lebanese origin. But in future, with the application of the PEM Convention in the respective agreements in place, the oil will obtain 'originating status'.

Example 15. Mountain Gnocchi (Maakaroun)**The Situation**

Lebanese Maakaroun produces mountain gnocchi from the following materials:

Materials used:	Origin:	HS:
Olive oil	Tunisia	1509
Durum wheat	Russia	1001
Wheat flour	Ukraine	1101

Salt	USA	2501
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Will the maakaroun obtain 'originating' product status?

The Analysis

- Maakaroun is classified under HS 1902.19.
- It is not wholly obtained.
- The applicable rule for *pasta, whether or not cooked or stuffed, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni, and couscous, whether or not prepared*, is the product-specific List Rule for HS 1902.
- The applicable rule for the mentioned products depends on their content of meat. For the products containing 20 % or less by weight of meat, meat offal, fish, crustaceans or molluscs the rule says: "*Manufacture in which all the cereals and derivatives (except durum wheat and its derivatives) used are wholly obtained*".
- The Ukrainian flour is made of wheat, i.e., is a derivative of wheat. Wheat is classified under HS 1001, and thus, falls into Chapter 10 – Cereals.
- However, there are different types of wheat that flour is made of. Durum wheat (HS 1001.10) and its derivatives are excluded by the rule from cereals that need to be wholly obtained. Therefore, it would be important to reconfirm whether the flour used here is made from durum wheat. In that case the rule would be satisfied, and maakaroun will obtain 'originating status'.
- Of course, in application of the same rule the durum wheat from Russia can be freely used. No limits apply.

Example 16. Tuna Fish in Olive Oil (1,000 kg)

The Situation

'Fish as you wish' in Beirut produces tuna in olive oil, packaged in glass jars. The materials used are:

Materials used:	Origin:	HS:
Olive oil	Italy	1509
Frozen tuna	Chile	0303
Pepper	India	0904
Salt	Peru	2501
Glass jars	China	7010

Will the product obtain "originating status"?

The Analysis

- The product is classified under HS 16.04.

- It is not wholly obtained.
- The applicable rule is the Chapter 16 rule, as there is no specific rule applied to the product.
- The rule says: *“Manufacture from animals of Chapter 1, and/or in which all the materials of Chapter 3 used are wholly obtained.”* The rule is a specific process rule which contains two alternative rules that also may be satisfied cumulatively.
- The first alternative refers to HS Chapter 1 (*Live animals*). It requires live animals to be wholly obtained. But the frozen tuna from Chile is neither live nor wholly obtained. The first alternative rule is not satisfied.
- The second alternative requires materials of Chapter 3 equally to be wholly obtained. The frozen tuna from Chile is classified under Chapter 3, but it is not wholly obtained. The second alternative would also not be satisfied.
- The product will not obtain ‘originating status’.
- Note that the List Rule focuses entirely on the tuna (or more generally: fish) input. All other ingredients are of no concern – they can come from anywhere, stem from any HS Heading, and have any value. Also the value of the tuna is not important.

Example 17. Cans of Cooked Eggplant in Oil

The Situation

The *Batinjan Beirut* produces cans of cooked eggplant in oil, with special smallish eggplants from Oman. The materials used are:

Materials used:	Origin:	HS:
Olive oil	Italy	1509
Eggplant	Oman	0709.30
Pepper	India	0904
Salt	Peru	2501

Will the product obtain “originating status”?

The Analysis

- The product is classified under HS 2005.99.
- It is not wholly obtained.
- The applicable rule is the general “ex Chapter 20” rule because there is no specific rule for the product’s own Heading. The Chapter Rule says: *“Manufacture in which all the fruit, nuts or vegetables used are wholly obtained.”*
- The vegetables used in manufacture are eggplants sourced from Oman. Oman is not a party to the PEM Convention and no cumulation applies to its materials. The eggplants from Oman, thus, would not be considered wholly obtained. The rule would not be satisfied.

- In order to obtain 'originating status', eggplants could in the future – once cumulation under PEM rules applies in the respective trade relationships with other countries – be sourced from a country which is a party to the PEM Convention

5. Processes and Formalities: The Essentials in Brief

5.1. Proof of Origin

What is a proof of origin?

Just as a passport proves nationality of a person, proof of origin serves as an evidence of ‘economic nationality’ of products, stating that the products are wholly obtained or substantially transformed in the exporting country.

Do I always have to prove the origin of my goods? Any exceptions?

Usually origin on which you plan to rely has to be proven. A minor exception applies to private-to-private transfers by post (maximum value: EUR 500) or in the form of travellers baggage (maximum value: EUR 1'200). Such goods are permitted to enter a PEM country benefiting from a preferential treatment without a proof of origin. In order for products sent in this way to benefit from the exemption 1) the goods must not be imported by the way of trade, i.e. not have a commercial purpose, 2) the goods must be declared to fulfil the requirements of the PEM Convention, and 3) there should be no doubts about veracity of the declaration.

In what forms can I prove origin of my goods?

The origin of the goods can be proven either through one of two types of declarations on invoices – named ‘origin declaration’ and ‘origin declaration EUR-MED’, provided the conditions for this facilitated mechanism are met (see below) or by one of two types of movement certificates – ‘EUR.1’ or ‘EUR-MED’.

(Currently many exporters still have to rely on the classical movement certificates, but EFTA, the EU and other PEM Parties in the PEM Working Group are working towards extending the – much easier – use of origin declarations, making them the norm rather than the exception in the future.)

When do I need to obtain a movement certificate (EUR.1 or EUR-MED)? When is an invoice declaration sufficient?

Movement certificates are issued by the customs authorities of the exporting state. They are required as a standard proof of origin unless one of two cases apply which allow for simple invoice declarations, issued autonomously by the exporter. The first is that the exporter has achieved the status of ‘approved exporter’ (Article 22 – see below). This presupposes that a corresponding process exists with the customs authorities in the exporting state (see Annex 5 for the parameters applicable in Lebanon).

The second case is that a consignment is worth not more than EUR 6'000. In this case an invoice declaration issued by the exporter irrespective of their status is equally sufficient.

What is an ‘approved exporter’?

An approved exporter is an exporter who meets certain conditions imposed by the customs authorities of the exporting state and is, on that basis and upon application, granted the right to present an invoice declaration regarding the origin of the products instead of applying for movement certificates (see Article 22 of Appendix 1 to the PEM Convention). The conditions for receiving this right include regular exportation, being able to always supply a proof of origin for the exported products, sufficient guarantee regarding the origin of products and the ability to meet

future obligations in the light of the exporting record. In order to obtain the status an exporter must submit a written application to the customs authorities.

Making out an invoice / origin declaration (exporter's declaration): What do I need to do?

These are the steps to make out an invoice declaration:

- Submit an application to be recognized as an “approved exporter”, as seen above. (A declaration of origin may however be made out if the total value of the originating materials in a shipment for which preferential treatment is to be claimed does not exceed EUR 6.000.-, as explained above. In this case no separate application to be recognized as an “approved exporter” is required.)
- Use the wording from Annexes IVa or IVb of the PEM Convention, respectively, for origin declarations EUR.1 and EUR-MED.⁷
- If products in the consignment originate in more than one PEM country, the reference with the official ISO abbreviation of these countries must be made in the text of an invoice declaration.
- An origin declaration can be made on the invoice (the normal case), but also on a delivery note or other commercial document describing the products in sufficient detail to allow them to be identified.

See Annex 4 on the wording to be used in an origin declaration EUR.1 and an origin declaration EUR-MED.

How and on which basis is a movement certificate EUR.1 or EUR-MED issued?

The PEM Convention foresees that a movement certificate is issued by the customs authorities of the exporting country.

The application for the certificate can be submitted either by the exporter or its authorized representative. This is done by submitting a filled out certificate form (EUR.1 or EUR-MED), accompanied by all necessary documents and information. The rules foresee how those forms are to be filled out – see below and Annexes 2 and 3.

The exporter is required to be “*prepared at any time, at the request of the customs authorities of the exporting [country] (...), all appropriate documents proving the originating status of the products concerned as well as the fulfilment of the other requirements of [the PEM] Convention.*” What is deemed to be appropriate documentation depends on the product, the production process and whether cumulation is applied. In the latter case, the origin of the input materials used for cumulation needs to be documented through origin declarations, suppliers’ declarations or certificates.

Example: Embroidered curtains (HS 6303) are manufactured in Lebanon from non-originating single yarn and exported to an EFTA State or the EU.

⁷ The main difference is that for an invoice declaration EUR-MED the necessary statement: 'Cumulation applied with (name of the country/countries)' or 'No cumulation applied' has to be made. That part of the origin declaration always has to be made in English, while the main text can be issued in any of the PEM languages, including Arabic.

Result: Originating status was obtained in Lebanon on the basis of sufficient working and processing. Cumulation with the PEM countries was not applied. Lebanese customs authorities can issue a movement certificate EUR.1.

Filling out a movement certificate: What do I need to watch out for?

These are the steps to fill in a movement certificate (application): (See Annex 2 for an annotated reproduction of a movement certificate EUR-MED and Annex 3 for an annotated reproduction of a movement certificate EUR.1.)

- Box 1 - Exporter - Insert the full name, address and the country.
- Box 2 - Certificate issued in preferential trade between – Insert the name of exporting and importing countries.
- Box 3 – Consignee – Optional, but it is recommended to insert the name of the consignee. For exports to exhibitions outside the EU, which are later sent on to a preference-giving country, you must also insert the name and address of the exhibition.
- Box 4 - Country, group of countries or territory in which the products are considered as originating - Insert the name of the country where a product acquired origin.
- Box 5 - Country of destination – Insert the name of importing country.
- Box 6 - Transport details - Optional, but it is recommended to insert the means of transport by which a product is transported to the country of import.
- Box 7 – Remarks - Insert the following, if necessary: ‘Duplicate’, ‘Issued retrospectively’, ‘Replacement of movement certificate EUR1/EUR-MED issued in’, otherwise leave blank. For EUR-MED: In case cumulation took place, tick the box ‘Cumulation applied with’ and insert names of the country or countries. In case there is no cumulation, tick the box ‘No cumulation applied’.
- Box 8 – Item number; Marks and numbers; Number and kind of packages; Description of goods - If different types of product are shown separately in the invoice, insert the name of each and give them numbers: 1, 2, 3. Insert information on identifying marks and numbers on the packages, if not marked, insert ‘not marked and numbered’. Number and kind of packages: boxes, bales, etc. If not packed, insert ‘in bulk’. Insert reasonably full and specified commercial description comparable to the invoice. The space for the description of the goods must be completed wholly so that it is impossible to make alterations. A horizontal line must be drawn below the last item, unused space must be struck through. If there is insufficient space for all products to be inserted, make a reference to a supplementary document - invoice, detailed list, and provide it with the certificate.
- Box 9 - Gross weight or other measure - If possible, insert quantities in metric measure.
- Box 10 – Invoices - If possible, insert the number and date of the invoice or invoices.
- Box 11 - Customs endorsement - Leave blank.
- Box 12 - Declaration by the exporter – Insert the name of the place where a movement certificate is done, the date and the signature.
- The reverse side is for customs officials and shall not be completed by the exporter.

What evidence do I need in order to show that my goods satisfy the Rules of Origin?

What proof do I need from my suppliers?

- Evidence of the processes performed by suppliers to obtain a product, for example from his accounts or internal bookkeeping;
- Documents proving the originating status of materials used in the manufacture of a product;
- Documents proving the sufficient working or processing of non-originating materials in Lebanon; movement certificates EUR.1 or EUR-MED or origin declarations proving the originating status of foreign materials used in the manufacture of a product;
- Evidence that the requirements of principle of territoriality are satisfied.

What records do I need to keep?

- Exporters shall keep sufficient records of inputs used, their values, the ex-works prices and/or production processes employed, reaching back three years – this time limit being subject to domestic legislation. This obligation allows for an effective verification of any proof of origin and a claim for preferential treatment made on the basis thereof. This means that stocks have to be kept sufficiently separate to allow for a clear allocation of inputs to outputs.
- Special rules for ‘accounting segregation’ apply in cases where keeping separate stocks of originating and non-originating materials that are identical and interchangeable, such as bulk commodities, is difficult. In those cases the producer can apply for the authorisation to apply a special method called ‘accounting separation’ (Article 20). This allows for a fictional assessment based on quantities of originating and non-originating inputs. In other words, a certain quantity of products is considered to have been produced using the relevant originating inputs.

How long is a proof of origin valid? Any other issues to watch out for?

A proof of origin is normally valid for four months after the date of issue. If a proof of origin is submitted later, it still can be accepted by the customs authorities, provided that the delay was caused by exceptional circumstances. Exceptional circumstances: 1) are outside of control of the importer, 2) occur rarely, and 3) do not affect the ability to verify origin. A proof of origin may also be accepted after 4 months if the products were submitted to the customs authority during the validity period.

5.2. When all is not clear...

5.2.1. Administrative Cooperation and Verification of Origin

Why cooperation of customs authorities?

To be effective, any system of rules of origin requires monitoring of compliance. For this to work, the authorities from both Parties – in the exporting and in the importing country – need to work together.

Because compliance with rules of origin must logically happen in the exporting country – that’s where the production happens, and hence that’s where goods are ‘wholly obtained’ or where

‘sufficient working or processing’ occurs – the customs authority of the exporting country are the ones who verify that a producer has complied with the rules.

But since the benefits of compliance are preferential tariff rates, it’s the importing country that needs to be satisfied that the imported goods are actually entitled to the preferences, i.e. that they can be considered originating in the exporting Party. After all, granting preferences means giving away tax revenue. In case of doubt the customs authorities of the importing party may therefore send a request for verification to the customs authorities of the exporting country, who will then conduct a verification (see below)

This can only work if the two authorities are linked by a robust system of trust and cooperation. This is why PEM countries have undertaken to cooperate closely on administrative issues between their customs authorities.

Verification of Origin

Sometimes there are doubts about either the authenticity of a movement certificate or about the truthfulness of the content of a movement certificate or an origin declaration. To address this risk the PEM Convention provides for a verification mechanism. This is primarily what administrative cooperation is for.

Under these rules (Article 32) the customs authorities of the importing country may request verification when they have “reasonable doubts” about the origin of the products. This request for verification goes back to the customs authorities of the exporting country. It can concern two questions (or both combined): the authenticity of a proof of origin (movement certificate or origin declaration) or its content. A verification process may also be conducted by the exporting country’s authorities at random.

There is no exhaustive list for the reasons of reasonable doubts about the origin of the products and/or the authenticity of the document. Some examples include:

- The products to which the proof of origin relates are not eligible for preference;
- Box 8 of a movement certificate EUR.1 or a movement certificate EUR-MED does not contain the description of the products;
- The products described in the proof of origin do not match those presented;
- The proof of origin has been presented after the expiry of its period of validity and there are no exceptional circumstances justifying its acceptance;
- Mandatory boxes of the proof of origin contain erasures and alterations;
- Box 4 of a movement certificate EUR.1 or a movement certificate EUR-MED contains a name of the country not party to the agreement or a country with which cumulation is not applicable;
- The proof of origin is issued by a country not party to the agreement or a country with which cumulation is not applicable.

How does verification work? And what happens to the traders and their goods?

The importing country's customs authority triggers the process by sending a request for verification to their colleagues in the exporting country.

The authorities of the exporting country then do what is necessary to respond. That may involve asking for evidence, checking the exporter's accounts or running any other check that may be necessary to establish the facts. Remember that as a producer and exporter you have to keep your records – the documents that support your claim of origin – for at least three years.

The period of time to respond to a request for verification is ten months. If the origin is not confirmed to the satisfaction of the importing country during this time, preferential treatment may be denied. In that case, the importer will have to pay full customs duties.

What happens to the goods during this time? They will be released, but possibly only against security.

And what about the people involved? If it turns out that any document that was used to claim origin – movement certificate applications, origin declarations, or any other underlying document – contained wrong information for the purpose of getting preferential treatment, the people who drew up those documents (or had others draw them up) can be punished according to domestic legislation in the importing country. The PEM Convention provides for the possibility of imposing "penalties". What those penalties are is a matter of domestic legislation.

5.2.2. Dispute Settlement

Disagreements about Origin after Verification

But what if the two customs authorities disagree? If a dispute regarding verification of origin arises, the Parties may raise the issue in the bilateral body established between the Parties through the free trade agreement – for example the Joint Committee under the Lebanon-EFTA FTA, or the Association Council in the case of the Lebanon-EU Association Agreement. If the disagreement persists the dispute may be submitted to arbitration. All of this takes place between the two governments, the traders are not (formally) involved.

Disagreements about the Interpretation of PEM Rules

If a dispute regarding the interpretation of the PEM Convention arises, it must be submitted to the Joint Committee under the PEM Convention. This makes sense – there each PEM country is represented, and because a key point of the convention is to ensure harmonized rules, the participating countries all have an interest in a uniform interpretation.

Disputes between Importers and Customs Authorities

The law applicable to disputes between the importer and the customs authorities in the importing country is the law of the importing country. Traders do not have the right to take on an importing country government through international arbitration or the like.

The PEM rules do not make direct reference to exporters or producers. They usually do not have any direct interface with the importing country authorities – that's the importer's role. (Sometimes, of course, exporters may also be importers.)

6. What if the Rules Need to Be Changed? Making Your Contributions to a Living System of Rules of Origin!

One of the main goals of the new PEM Convention is to make it easier to change the rules. This is good for businesses, because production processes, value chains and products change fast, and the rules may have to be adapted to keep pace. A process or regular reform of the rules is built directly into the system, and it is currently ongoing.

6.1. The PEM Rules of Origin are Alive!

Identical Rules Needed for Cumulation – But Difficult to Change Multiple Agreements

Cumulation of origin usually is only applied where the substantive rules in all the underlying trade agreements are identical, or at least very similar. EFTA and EU-Agreements usually require that the rules be *identical*, and also the PEM Convention builds on this tradition. Now, for diagonal cumulation there are at least three countries involved, and that means often up to three different Free Trade Agreements (A-B; B-C; and C-A). So if a rule, for example a specific List Rule, is no longer considered useful, they have to change all three agreements in synch to not destroy the triangular cumulation space. If you try to do this in the current Euro-Mediterranean space with 60+ trade agreements, you have to change all 60+ of them individually just to preserve the cumulation possibilities.

The PEM Working Group Process

One of the main aims of the PEM Convention is to simplify the uniformity of Rules of Origin in order to facilitate cumulation: It is designed to function not only as one harmonized system of rules, but also one that is changed through one harmonized central process. The countries involved thus set up a “Pan Euro-Med Working Group” to systematically discuss and decide on proposals from participants to adjust the rules. To facilitate and minimize both the complexity of the process and the changes inferred by the PEM Convention, the Group is finding some inspiration in the different already existing rules implemented in various agreements between the parties. At the time of writing the Working Group process for this first revision round is already far advanced. Participants are hoping to conclude it shortly. But the PEM Convention generally foresees that the system remains dynamic, and future rounds of revisions will follow.

6.2. Making Your Contribution to Change: Business Input is Crucial

The National Committee on Rules of Origin

Lebanon participates in the PEM Working Group process, and its negotiators have made various contributions. These contributions are prepared by the National Committee on Rules of Origin, a technical body that is led by the Ministry of Economy and Trade and includes a variety of stakeholders including the Ministry of Industry, Customs and Agriculture as well as Chambers of Commerce.

Business Input Welcome

Lebanon's businesses involved in both imports and exports of goods can provide comments through for example Chambers of Commerce and other business bodies, but also on an individual basis.

Such input from the business side is very important and can make a significant contribution. It is businesspeople who often know best which rules work and which don't in actual business reality. And it is they who are often able to tell which rules need to be changed, and how, to reflect current product designs, consumer needs, value chains, supply possibilities, and trade patterns.

7. Where Can I Learn More? A Quick Guide to Key Resources

Who Can Help in Lebanon?

- Ministry of Economy and Trade: <http://www.economy.gov.lb/index.php/home/2>
- Ministry of Industry: <http://www.industry.gov.lb/>
- Ministry of Agriculture: www.agriculture.gov.lb/
- Lebanese Customs: <http://www.customs.gov.lb/customs/>
- Chambers of Commerce:
 - ☐ Chamber of Commerce, Industry and Agriculture: <http://www.ccib.org.lb/en/>
 - ☐ International Chamber of Commerce Lebanon: <http://www.iccwbo.org/worldwide-membership/national-committees/icc-lebanon/>

Key Texts (in doubt: Try to read the rule – it's easier than you think!)

- The PEM Convention in English: [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22013A0226\(01\)&rid=2](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22013A0226(01)&rid=2)
- The PEM Convention in French: [http://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:22013A0226\(01\)&rid=2](http://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:22013A0226(01)&rid=2)
- System of Pan-Euro-Mediterranean cumulation: http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm
- The Harmonized System (customs classification of goods): http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs_nomenclature_2012/hs_nomenclature_table_2012.aspx
- Harmonized System Codes Online Database: <http://www.foreign-trade.com/reference/hscode.htm>

Information about Importing Country Tariffs, Rules and Procedures

- EFTA Countries
 - Swiss Customs: <http://www.ezv.admin.ch/index.html?lang=en>
 - ☐ Customs Tariff – Tares: <http://xtares.admin.ch/tares/login/loginFormFiller.do;jsessionid=j2yQWPzSStXpMrG8PhnWqShz6wSMM7nXnM6D0NzCQbfT2QHxlp3y!-2122318102>
 - Norwegian Customs: <http://www.toll.no/en/international/english/>

- Norwegian Customs Tariff 2015:
http://tollltariffen.toll.no/templates_TAD/Tolltariffen/StartPage.aspx?id=279236&epslanguage=en
- Icelandic Customs: <https://www.tollur.is/english/>
 - Customs tariff - <https://www.tollur.is/english/businesses/customs/import-duties/customs-tariff/>
- Others
 - The EU's Export Helpdesk: <http://exporthelp.europa.eu/thdapp/index.htm>
 - Customs Tariff Database – TARIC:
http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en
 - Turkish Customs: <http://www.gtb.gov.tr> (in Turkish)
 - Turkish Customs Tariff: <http://www.gumruktarife.com> (in Turkish)

8. Abbreviations, Glossary & Index

Chapter (HS)	A first level of classification of goods in the → Harmonized System grouping goods by broad characteristics and identified by two digits, for example Chapter 09: “Coffee, tea, mate and spices”. The Harmonized System has (currently) 97 Chapters.
Chapter rule	This is the default rule indicated at the beginning of the Chapter section in the product-specific rules (the List Rules). A general rule applied to all products classified under the chapter, unless a specified rule for a heading (see the definition below) exists.
Cumulation [of origin]	A system allowing contributions from two or more countries to the production process of one product to be ‘accumulated’ for purposes of satisfying rules of origin. Cumulation rules can operate in different ways. The PEM Convention, for example, establishes a system of <u>diagonal cumulation</u>. This allows originating materials of one country to be considered as ‘originating’ inputs in the manufacture of products in another country for purposes of export to a third country. The rule thus presupposes that the inputs achieve ‘originating’ status before crossing the border for further processing. Some FTAs apply <u>full cumulation</u> in bilateral or triangular relationships. Under full cumulation partner countries can share the processing steps necessary to obtain origin without the need for an interim product to attain origin in the middle. Lebanon is not engaged in full cumulation system.
EFTA	European Free Trade Area, consisting of Iceland, Liechtenstein, Norway and Switzerland.

ex-works price	An <i>Incoterms</i> term, sometimes also called ‘ex factory price’, referring to the price of goods at the last producer’s factory door. The price includes all direct and indirect costs accrued until the last processing step performed. The PEM Convention defines “ex-works price” as “<i>the price paid for the product ex works to the manufacturer in the Contracting Party in whose undertaking the last working or processing is carried out, provided the price includes the value of all the materials used, minus any internal taxes which are, or may be, repaid when the product obtained is exported.</i>” The ex-works price does not contain post-factory items such as insurance and freight for getting the goods to the buyer.
EU	European Union, consisting of 28 European Member States.
FTA	Free Trade Agreement
Harmonized System	An international nomenclature for the classification of products on a common basis for custom purposes.
Heading (HS – Harmonized System)	‘Heading’, “Tariff heading” or “HS Heading” refers to the 4-digit (= second) level of classification of goods in the → Harmonized System. The first level is → “Chapter”, identified by two digits. The first two digits of each Heading identifies the Chapter in which the heading is found. For example: Heading 0902: “Tea, whether or not flavoured” is contained in Chapter 09 “Coffee, tea, mate and spices”.
HS	See → Harmonized System

Insufficient working or processing	Operations that are considered to be of such minor importance, or have such a minor effect on a product, that they do not confer origin even if they satisfy the list rules; sometimes also referred to as 'minimal operations'. These are simple sorting, mixing, packaging and similar operations. Article 6 contains an exhaustive list. Note that such minimal operations can in some cases nonetheless add significant value in absolute and relative terms. However, the PEM Convention in Article 6 (and countless other origin rules) reflect the policy decision not to let these types of processing steps be sufficient to confer origin.
IT	Information Technology
ITA	Information Technology Agreement – an agreement among around 80 WTO Members to grant duty free treatment to a range of IT products.
List Rules	Product specific rules describing sufficient working or processing (substantial transformation) that non-originating materials have to undergo to acquire origin, i.e., become originating. In the PEM Convention List rules are contained in Annex II to Appendix I (Appendix 1 is the actual origin text, an in most cases virtually identical mirror image of a 'protocol of origin' as contained in most EFTA or EU agreements, for example.
Origin	For the purposes of rules of origin, an 'economic nationality' of the goods, indicating what country they 'originate' from. Origin allows for the targeted application of unilateral, bilateral or regional trade preferences, such as duty-free treatment for goods of the parties to an FTA.

Originating	For the purposes of rules of origin, being ‘wholly obtained’ or ‘sufficiently worked or processed’ in the country of origin to have obtained ‘origin’ under the applicable rules. Under the PEM Convention’s rules on → cumulation ‘originating’ input products comprises both (1) those products that satisfy the applicable substantive rules in the country of production of a final product (products that come from the same country where the final product is being produced) and (2) goods that ‘originate’ in countries with which diagonal cumulation applies.
PEM Convention	Pan-Euro-Mediterranean Convention, officially the “Regional Convention on pan-Euro-Mediterranean Rules of Origin” concluded between EFTA, the EU, Turkey, the countries that signed the Barcelona Declaration, namely Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and Palestine, as well as the Western Balkan states. The Faroe Islands have been added to the system as well. The PEM Convention does not apply directly. Rather, it provides a framework and reference system of rules of origin designed to be included by reference into the bilateral and regional/group-based FTAs among its various parties.
Prohibition of drawback	Prohibition of paying back duties paid on imported materials used in the manufacture of an exported product.
Sufficiently worked or processed	A substantial transformation that ‘non-originating’ materials must undergo to acquire origin expressed through change in tariff heading, value addition, specific process or combination of them.

Tolerance rule	Rule that allows producers to deviate from otherwise applicable origin rules. The so-called General Tolerance Rule, for example, provides that up to 10% foreign (non-originating) input materials can be used even if the applicable List Rule does not foresee this. But: These 10% cannot be added to any percentage requirements in List Rules. So if the List Rule requires a maximum of 40% foreign inputs, this is the limit that applies – not 40% + 10% tolerance. There are specific tolerance rules for some products, for example textiles, for which the general tolerance rule does not apply.
Wholly obtained	'Native' products of the country and products manufactured from them, usually not involving any 'non-originating' materials.

9. A Few Useful Annexes

- Specimen EUR.1
- Specimen EUR-MED
- Sample Origin Declaration

9.1. Annex 1: Excerpt of PEM List Rules – Food Products (Chapters 01-24)

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
Chapter 1	Live animals	All the animals of Chapter 1 shall be wholly obtained	
Chapter 2	Meat and edible meat offal	Manufacture in which all the materials of Chapters 1 and 2 used are wholly obtained	
Chapter 3	Fish and crustaceans, molluscs and other aquatic invertebrates	Manufacture in which all the materials of Chapter 3 used are wholly obtained	
ex Chapter 4	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included; except for:	Manufacture in which all the materials of Chapter 4 used are wholly obtained	
0403	Buttermilk, curdled milk and cream, yoghurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa	Manufacture in which: - all the materials of Chapter 4 used are wholly obtained, - all the fruit juice (except that of pineapple, lime or grapefruit) of heading 2009 used is originating, - and - the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product	
ex Chapter 5	Products of animal origin, not elsewhere specified or included; except for:	Manufacture in which all the materials of Chapter 5 used are wholly obtained	
ex 0502	Prepared pigs', hogs' or boars' bristles and hair	Cleaning, disinfecting, sorting and straightening of bristles and hair	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
Chapter 6	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	Manufacture in which: - all the materials of Chapter 6 used are wholly obtained, and - the value of all the materials used does not exceed 50 % of the ex- works price of the product	
Chapter 7	Edible vegetables and certain roots and tubers	Manufacture in which all the materials of Chapter 7 used are wholly obtained	
Chapter 8	Edible fruit and nuts; peel of citrus fruits or melons	Manufacture in which: - all the fruit and nuts used are wholly obtained, - and - the value of all the materials of Chapter 17 used does not exceed 30 % of the value of the ex-works price of the product	
ex Chapter 9	Coffee, tea, maté and spices; except for:	Manufacture in which all the materials of Chapter 9 used are wholly obtained	
0901	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion	Manufacture from materials of any heading	
0902	Tea, whether or not flavoured	Manufacture from materials of any heading	
ex 0910	Mixtures of spices	Manufacture from materials of any heading	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
Chapter 10	Cereals	Manufacture in which all the materials of Chapter 10 used are wholly obtained	
ex Chapter 11	Products of the milling industry; malt; starches; inulin; wheat gluten; except for:	Manufacture in which all the cereals, edible vegetables, roots and tubers of heading 0714 or fruit used are wholly obtained	
ex 1106	Flour, meal and powder of the dried, shelled leguminous vegetables of heading 0713	Drying and milling of leguminous vegetables of heading 0708	
Chapter 12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	Manufacture in which all the materials of Chapter 12 used are wholly obtained	
1301	Lac; natural gums, resins, gum- resins and oleoresins (for example, balsams)	Manufacture in which the value of all the materials of heading 1301 used does not exceed 50 % of the ex-works price of the product	
1302	Vegetable saps and extracts; pectic substances, pectinates and pectates; agar-agar and other mucilages and thickeners, whether or not modified, derived from vegetable products:		
	- Mucilages and thickeners, modified, derived from vegetable products	Manufacture from non-modified mucilages and thickeners	
	- Other	Manufacture in which the value of all the materials used does not exceed 50	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
		% of the ex-works price of the product	
Chapter 14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	Manufacture in which all the materials of Chapter 14 used are wholly obtained	
ex Chapter 15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes; except for:	Manufacture from materials of any heading, except that of the product	
1501	Pig fat (including lard) and poultry fat, other than that of heading 0209 or 1503:		
	- Fats from bones or waste	Manufacture from materials of any heading, except those of heading 0203, 0206 or 0207 or bones of heading 0506	
	- Other	Manufacture from meat or edible offal of swine of heading 0203 or 0206 or of meat and edible offal of poultry of heading 0207	
1502	Fats of bovine animals, sheep or goats, other than those of heading 1503		
	- Fats from bones or waste	Manufacture from materials of any heading, except those of heading 0201, 0202, 0204 or 0206 or bones of heading 0506	
1504	- Other	Manufacture in which all the materials of Chapter 2 used are wholly obtained	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
ex 1505 1506	Fats and oils and their fractions, of fish or marine mammals, whether or not refined, but not chemically modified:		
	- Solid fractions	Manufacture from materials of any heading, including other materials of heading 1504	
	- Other	Manufacture in which all the materials of Chapters 2 and 3 used are wholly obtained	
	Refined lanolin	Manufacture from crude wool grease of heading 1505	
	Other animal fats and oils and their fractions, whether or not refined, but not chemically modified:		
	- Solid fractions	Manufacture from materials of any heading, including other materials of heading 1506	
	- Other	Manufacture in which all the materials of Chapter 2 used are wholly obtained	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
1507 to 1515	Vegetable oils and their fractions:		
1516	- Soya, ground nut, palm, copra, palm kernel, babassu, tung and oiticica oil, myrtle wax and Japan wax, fractions of jojoba oil and oils for technical or industrial uses other than the manufacture of foodstuffs for human consumption	Manufacture from materials of any heading, except that of the product	
1517	- Solid fractions, except for that of jojoba oil	Manufacture from other materials of headings 1507 to 1515	
	- Other	Manufacture in which all the vegetable materials used are wholly obtained	
	Animal or vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter- esterified, re-esterified or elaidinised, whether or not refined, but not further prepared	Manufacture in which: - all the materials of Chapter 2 used are wholly obtained, and - all the vegetable materials used are wholly obtained. However, materials of headings 1507, 1508, 1511 and 1513 may be used	
	Margarine; edible mixtures or preparations of animal or vegetable fats or oils or of fractions of different fats or oils of this Chapter, other than edible fats or oils or their fractions of heading 1516	Manufacture in which: - all the materials of Chapters 2 and 4 used are wholly obtained, and - all the vegetable materials used are wholly obtained. However, materials of headings 1507, 1508, 1511 and 1513 may be used	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
Chapter 16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	Manufacture: - from animals of Chapter 1, and/or - in which all the materials of Chapter 3 used are wholly obtained	
ex Chapter 17	Sugars and sugar confectionery; except for:	Manufacture from materials of any heading, except that of the product	
ex 1701	Cane or beet sugar and chemically pure sucrose, in solid form, containing added flavouring or colouring matter	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	
1702	Other sugars, including chemically pure lactose, maltose, glucose and fructose, in solid form; sugar syrups not containing added flavouring or colouring matter; artificial honey, whether or not mixed with natural honey; caramel: - Chemically-pure maltose and fructose - Other sugars in solid form, containing added flavouring or colouring matter - Other	Manufacture from materials of any heading, including other materials of heading 1702 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 Manufacture in which all the materials used are originating	
ex 1703	Molasses resulting from the extraction or refining of sugar, containing added flavouring or colouring matter	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	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
1704	Sugar confectionery (including white chocolate), not containing cocoa	Manufacture: - from materials of any heading, except that of the product, and - in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product	
Chapter 18	Cocoa and cocoa preparations	Manufacture: - from materials of any heading, except that of the product, and - in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product	
1901	Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40 % by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 0401 to 0404, not containing cocoa or containing less than 5 % by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included: - Malt extract - Other	Manufacture from cereals of Chapter 10 Manufacture: - from materials of any heading, except that of the product, and - in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
1902	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared: - Containing 20 % or less by weight of meat, meat offal, fish, crustaceans or molluscs - Containing more than 20 % by weight of meat, meat offal, fish, crustaceans or molluscs	Manufacture in which all the cereals and derivatives (except durum wheat and its derivatives) used are wholly obtained Manufacture in which: - all the cereals and their derivatives (except durum wheat and its derivatives) used are wholly obtained, and - all the materials of Chapters 2 and 3 used are wholly obtained	
1903	Tapioca and substitutes therefor prepared from starch, in the form of flakes, grains, pearls, siftings or similar forms	Manufacture from materials of any heading, except potato starch of heading 1108	
1904	Prepared foods obtained by the swelling or roasting of cereals or cereal products (for example, corn flakes); cereals (other than maize (corn)) in grain form or in the form of flakes or other worked grains (except flour, groats and meal), pre-cooked or otherwise prepared, not elsewhere specified or included	Manufacture: - from materials of any heading, except those of heading 1806, - in which all the cereals and flour (except durum wheat and <i>Zea mays</i> maize, and their derivatives) used are wholly obtained, and - in which the value of all the materials of Chapter 17 used does not exceed 30	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
		% of the ex-works price of the product	
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	
ex Chapter 20	Preparations of vegetables, fruit, nuts or other parts of plants; except for:	Manufacture in which all the fruit, nuts or vegetables used are wholly obtained	
ex 2001	Yams, sweet potatoes and similar edible parts of plants containing 5 % or more by weight of starch, prepared or preserved by vinegar or acetic acid	Manufacture from materials of any heading, except that of the product	
ex 2004 and ex 2005	Potatoes in the form of flour, meal or flakes, prepared or preserved otherwise than by vinegar or acetic acid	Manufacture from materials of any heading, except that of the product	
2006	Vegetables, fruit, nuts, fruit-peel and other parts of plants, preserved by sugar (drained, glacé or crystallized)	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	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
2007	Jams, fruit jellies, marmalades, fruit or nut purée and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter	Manufacture:	
		- from materials of any heading, except that of the product, and	
		- in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product	
ex 2008	- Nuts, not containing added sugar or spirits	Manufacture in which the value of all the originating nuts and oil seeds of headings 0801, 0802 and 1202 to 1207 used exceeds 60 % of the ex-works price of the product	
2009	- Peanut butter; mixtures based on cereals; palm hearts; maize (corn)	Manufacture from materials of any heading, except that of the product	
	- Other except for fruit and nuts cooked otherwise than by steaming or boiling in water, not containing added sugar, frozen	Manufacture:	
		- from materials of any heading, except that of the product, and	
		- in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product	
	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter	Manufacture:	
		- from materials of any heading, except that of the product, and	
		- in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product	
ex Chapter 21	Miscellaneous edible preparations; except for:	Manufacture from materials of any heading, except that of the product	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
2101	Extracts, essences and concentrates, of coffee, tea or maté and preparations with a basis of these products or with a basis of coffee, tea or maté; roasted chicory and other roasted coffee substitutes, and extracts, essences and concentrates thereof	Manufacture: - from materials of any heading, except that of the product, and - in which all the chicory used is wholly obtained	
2103	Sauces and preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard:		
ex 2104	- Sauces and preparations therefor; mixed condiments and mixed seasonings	Manufacture from materials of any heading, except that of the product. However, mustard flour or meal or prepared mustard may be used	
	- Mustard flour and meal and prepared mustard	Manufacture from materials of any heading	
	Soups and broths and preparations therefor	Manufacture from materials of any heading, except prepared or preserved vegetables of headings 2002 to 2005	
2106	Food preparations not elsewhere specified or included	Manufacture: - from materials of any heading, except that of the product, and - in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product	
ex Chapter 22	Beverages, spirits and vinegar; except for:	Manufacture: - from materials of any heading, except that of the product, and - in which all the grapes or materials derived from grapes used are wholly	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
2202	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non- alcoholic beverages, not including fruit or vegetable juices of heading 2009	obtained	
2207	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol or higher; ethyl alcohol and other spirits, denatured, of any strength	Manufacture: - from materials of any heading, except that of the product, - in which the value of all the materials of Chapter 17 used does not exceed 30 % of the ex-works price of the product, and - in which all the fruit juice used (except that of pineapple, lime or grapefruit) is originating	
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % vol; spirits, liqueurs and other spirituous beverages	Manufacture: - from materials of any heading, except heading 2207 or 2208, and - in which all the grapes or materials derived from grapes used are wholly obtained or, if all the other materials used are already originating, arrack may be used up to a limit of 5 % by volume	

HS heading	Description of product	Working or processing, carried out on non-originating materials, which confers originating status	
(1)	(2)	(3) or (4)	
ex Chapter 23	Residues and waste from the food industries; prepared animal fodder; except for:	Manufacture from materials of any heading, except that of the product	
ex 2301	Whale meal; flours, meals and pellets of fish or of crustaceans, molluscs or other aquatic invertebrates, unfit for human consumption	Manufacture in which all the materials of Chapters 2 and 3 used are wholly obtained	
ex 2303	Residues from the manufacture of starch from maize (excluding concentrated steeping liquors), of a protein content, calculated on the dry product, exceeding 40 % by weight	Manufacture in which all the maize used is wholly obtained	
ex 2306	Oil cake and other solid residues resulting from the extraction of olive oil, containing more than 3 % of olive oil	Manufacture in which all the olives used are wholly obtained	
2309	Preparations of a kind used in animal feeding	Manufacture in which: - all the cereals, sugar or molasses meat or milk used are originating, and - all the materials of Chapter 3 used are wholly obtained	

The reverse side is for customs officials and shall not be completed by the exporter.

13. REQUEST FOR VERIFICATION, to:	14. RESULT OF VERIFICATION
Verification of the authenticity and accuracy of this certificate is requested. _____ (Place and date) _____ (Signature) Stamp	Verification carried out shows that this certificate (*) ☐ was issued by the customs office indicated and that the information contained therein is accurate. ☐ does not meet the requirements as to authenticity and accuracy (see remarks appended). _____ (Place and date) _____ (Signature) Stamp _____ (*) Insert it in the appropriate box.

9.3. Annex 3. Filling out a movement certificate EUR.1

The main difference between filling out a movement certificate EUR-MED and a movement certificate EUR.1 is the box 7 which does not require to insert the information on whether and with which countries cumulation was applied, but rather provides for a possibility to insert remarks.

MOVEMENT CERTIFICATE			
1. Exporter (Name, full address, country)		EUR.1 No A 000.000	
		See notes overleaf before completing this form.	
3. Consignee (Name, full address, country) (Optional)		2. Certificate used in preferential trade between	
		_____ and _____ (Insert appropriate countries, groups of countries or territories)	
		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	
		_____ Insert, if necessary: 'Duplicate', 'Issued retrospectively', 'Replacement of movement certificate issued in', otherwise leave blank.	
8. Item number; Marks and numbers; Number and kind of packages ⁽¹⁾ ; Description of goods		9. Gross mass (kg) or other measure (litres, m ³ , etc.)	10. Invoices (Optional)
11. CUSTOMS ENDORSEMENT		12. DECLARATION BY THE EXPORTER	
Declaration certified Export document ⁽²⁾ Form _____ No _____ Of _____ Customs office _____ Issuing country or territory _____ _____ (Place and date) _____ (Signature)		I, the undersigned, declare that the goods described above meet the conditions required for the issue of this certificate _____ (Place and date) _____ (Signature)	
Stamp			
⁽¹⁾ If goods are not packed, indicate number of articles or state 'in bulk' as appropriate. ⁽²⁾ Complete only where the regulations of the exporting country or territory require.			

13. REQUEST FOR VERIFICATION, to	14. RESULT OF VERIFICATION
Verification of the authenticity and accuracy of this certificate is requested. (Place and date) (Signature)  Stamp	Verification carried out shows that this certificate ⁽¹⁾ ☐ was issued by the customs office indicated and that the information contained therein is accurate ☐ does not meet the requirements as to authenticity and accuracy (see remarks appended). (Place and date) (Signature)  Stamp (1) Insert X in the appropriate box.

9.4. Annex 4. Wording of Invoice Declarations (Origin Declarations) EUR.1 and EUR-MED

The texts below are prescribed by Annexes IVa and IVb to Appendix 1 of the PEM Convention.

(1) InvoicedeclarationEUR.1 (no indication of cumulation)

English version

The exporter of the products covered by this document (customs authorization No⁽¹⁾) declares that, except where otherwise clearly indicated, these products are of⁽²⁾ preferential origin.

Arabic version

يصرح مصدر المنتجات التي تشملها هذه الوثيقة (التصريح الجمركي رقم⁽¹⁾) بإستثناء ما ينص بوضوح على خلاف ذلك، بأن هذه المنتجات من منشأ تفضيلي من⁽²⁾.

(2) Invoice declaration EUR-MED (indicating cumulation applied)

English version

The exporter of the products covered by this document (customs authorization No⁽¹⁾) declares that, except where otherwise clearly indicated, these products are of⁽²⁾ preferential origin.
- cumulation applied with (name of the country/countries)
- nocumulation applied⁽³⁾

Arabic (mixed) version

يصرح مصدر المنتجات التي تشملها هذه الوثيقة (التصريح الجمركي رقم⁽¹⁾) بإستثناء ما ينص بوضوح على خلاف ذلك، بأن هذه المنتجات من منشأ تفضيلي من⁽²⁾.
- cumulation applied with (name of the country/countries)
- nocumulation applied⁽³⁾

Footnotes

⁽¹⁾ When the origin declaration is made out by an approved exporter, the authorisation number of the approved exporter must be entered in this space. When the origin declaration is not made out by an approved exporter, the words in brackets shall be omitted or the space left blank.

⁽²⁾ Origin of products to be indicated. When the origin declaration relates, in whole or in part, to products originating in Ceuta and Melilla, the exporter must clearly indicate them in the document on which the declaration is made out, by means of the symbol 'CM'.

⁽³⁾ Complete and delete where necessary.

9.5. Annex 5 - Acquiring Approved Exporter Status in Lebanon

A. Conditions to receive the status of an Approved Exporter in Lebanon:

1. The applicant must have conducted at least 15 exporting transactions in one year,
2. The applicant must not have committed any offenses as per the customs laws and regulations,
3. The applicant must submit a request to the General Customs Directorate for verifications of the above stated conditions (1) and (2),
4. The applicant must pledge to submit all required documents on proof of origin of exports, as per the request by the Customs Directorate and as per the conditions set forth in the Euro-Mediterranean Agreement, which Lebanon is party of.
5. A sequential number would be granted verifying that the applicant is an approved exporter. This number would be included in the registry of the presidency of customs regional offices in Tripoli and the presidency of the customs regional offices in Chtoura, and in the registry of head of division of customs for Port of Beirut, the Airport, and the regional directorate of Beirut on behalf of other customs offices, in order to become part of the Approved Exporters List.

The approved exporter should include the granted sequential number in the invoice which is used for Proof of Origin as per the above mentioned agreement.

B. Format used by the Approved Exporter:

The accredited format used for the license of approved exporter is **Lb/0000/0000/X**; where:

- “Lb” represents the Republic of Lebanon,
- The consecutive 4-digit numbers represents the granted sequential number of the approved exporter
- The last 4-digit numbers represent the years in the status as approved exporter was received.
- The X would be either B, T or C, symbolizing the area from which the license of the approved exporter was issued:
 - B for licenses granted from Customs Regional Offices in Beirut,
 - T for licenses granted from Customs Regional Offices in Tripoli,
 - C for Licenses granted from Customs Regional Offices in Chtoura.

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