

Why are Rules of Origin putting a spanner in the works?

Rules of Origin (RoO) are putting a spanner in the works for UK exporters wishing to take advantage of the UK's newly negotiated trade deals with the EU and all trade deals we had with the EU that have been rolled over. The new trade agreements only allow goods of UK origin to move tariff and quota free. Many UK exporters from a variety of sectors are finding that goods they thought they could export tariff and quota free do not meet the new origin rules putting their goods at a disadvantage compared to their EU competitors. The rules define which goods can be counted as originating in the UK and therefore benefit from the negotiated agreements.

So, why do we have RoO? RoO are written into all trade agreements to ensure that reduced tariffs and other non-trade barriers covered by the agreement are only available to goods originating in the countries that have signed the agreement. If we didn't have RoO, then companies could just import goods into a country that has a trade deal with the country they want to trade with then just export the goods, even though the country that originally sent the goods does not have a deal with them. For example, a US company wants to export to the EU, but the US and the EU do not have a trade deal; without RoO, the US company could export the goods to the UK and then on to the EU taking advantage of the UK-EU trade deal.

The rules vary for each commodity code though in general if 50% of the ex works price is considered as originating in the UK then the goods would be considered to be of UK origin. For goods wholly originating in the UK this is not an issue, but with modern supply chains, parts come from all over the world. When we were a member of the EU then parts from EU countries counted towards the origin of the goods and in some agreements they still can as long as they're processed in some way in the UK. This is called cumulation and is included in some format in most trade agreements. The issue UK businesses are having at the moment is that cumulation can only apply if the goods are processed and there is a list of minimal processes which do not change the origin of the goods. For example, if Norwegian salmon is imported into the UK and then repackaged for the consumer market, then repackaging is considered a minimal process which does not change origin, so the goods remain of Norwegian origin. If the same Norwegian salmon is imported into the UK and is smoked and then repackaged for the consumer market, then the salmon can be considered of UK origin.

These rules will have the effect of curtailing the UK from being a distribution centre for EU goods. It may make UK manufacturers look for UK suppliers to replace their existing EU suppliers, but EU manufacturers face the same issue so may well replace their UK suppliers. In short, RoO are an added barrier to trade that many UK exporters have not needed to consider before. Not all goods can move tariff and quota free between our trading partners.