



Global Trade Advisory Alert

New Pan-Euro-Mediterranean (PEM) Convention transitional origin rules

After a renegotiation process, the EU has succeeded in applying updated rules of origin in the Pan-Euro-Mediterranean area with a number of contracting parties. These updated rules bring administrative simplifications and new possibilities with the introduction of full cumulation, the abolition of the drawback ban and the calculation of average values.

This alert provides a brief overview of the changes together with general recommendations how to implement them in your organisation.

New rules

The transitional rules provide for administrative simplifications, in particular:

Proof of origin:

- The elimination of the EUR-MED proof of origin: a single type of proof of origin (EUR.1 or origin declaration) will suffice for a period for 10 months instead of for 4 months. In case you decide to use the transitional rules of origin, the wording “transitional rules” should be indicated in section 7 of the EUR.1 certificate. Two new codes have been created in TARIC to be used in customs declarations:
 - U075 for the EUR.1 movement certificate (under the condition that in Box 7 “Transitional Rules” is indicated)
 - U076 for the origin declaration (under the condition that the declaration mentions “origin according to the transitional rules”)
- There will be a possibility in the future to replace the certificates of origin with origin statements by registered exporters and to issue electronic origin certificates.

Accounting Segregation:

- When requesting an authorization for accounting segregation, exporters no longer need to justify that keeping separate stocks has a considerable cost or gives rise to material difficulties; it will be sufficient to indicate

that identical and interchangeable materials are used in the working or processing of a product to obtain authorization to apply accounting segregation.

Non-manipulation rule:

- Replacement of the 'direct transport' rule with a 'non-manipulation' rule with regards to transporting goods from one PEM contracting party to another PEM contracting party: it's allowed for goods to transit through third countries if exporters can prove that the goods have not been 'manipulated' or altered during that transit. Splitting of consignments in a third country is also allowed, provided that the goods remain under customs supervision. In practice, this can be proven by a certificate of non-manipulation or a copy of the re-exportation declaration.

Other changes that may have a beneficial effect provided by the new rules:

More flexible and simpler product rules:

- The transitional rules are generally more flexible. For instance, new double transformation for textiles (more finishing operations confer origin), multiple choice rule for chemicals (chemical reactions confer origin), etc. However, there are very few cases where the transitional rules are more strict than the old rules, in particular for products containing sugar.

More flexible tolerance rules:

- The tolerance increased from 10% to 15% of non-originating materials on the basis of net weight for agricultural goods, while for the other products (except for products falling within Chapters 50 to 63 of the Harmonised System) the tolerance is set to 15% of non-originating materials based on the ex-works price of the final product.

Possibility of Duty-drawback:

- Elimination of prohibition of duty drawback for all products, with the exception of materials used in the manufacture of products falling within the scope of Chapters 50-63 of the Harmonised System, for which however some exceptions are foreseen.

Value limitation rules:

- Increased flexibility on value limitation rules: the exporter and EU suppliers making out supplier's declarations now have the flexibility to request an authorisation from customs authorities to calculate the ex-works price and value of non-originating materials on an average basis so that fluctuations in costs and currency rates can be taken into account, providing more predictability.

"Full" cumulation:

- Expanded cumulation: diagonal cumulation for all products is maintained on the condition that identical rules of origin are applied between the partners involved in the cumulation. Additionally, generalized full cumulation is provided for all products except those of Chapters 50-63 of the Harmonised System. For those products, the transitional rules provide for bilateral full cumulation.

Two sets of rules of origin in force in the PEM area

From September 1, 2021, the new rules of origin apply between the EU and each of the following partners: Albania, Faroe Islands, Georgia, Iceland, Jordan, Palestine, Norway and Switzerland. From September 9, 2021, the new rules of origin also apply between the EU and North Macedonia.

The negotiation process with most other partners (Bosnia and Herzegovina, Egypt, Israel, Kosovo, Lebanon, Montenegro, Republic of Moldova, Serbia, Turkey and Ukraine) is ongoing and at different stages of progress. However, Morocco, Tunisia and Algeria have not endorsed the new rules at this time. The

EU remains committed to finalising the negotiation process so that a single set of rules of origin is applicable throughout the PEM area.

It is crucial to understand that there are therefore two sets of rules of origin in force at the moment. While you may still use the 'old' rules of origin in trade with PEM partners, you cannot use the new rules to determine the origin of your products for those destination countries with whom the negotiation process is still ongoing. In practice, this means that there is a need to indicate which rules are used (PEM Convention or transitional rules) in supplier's declarations when indicating the partner country – if no specific rules of origin are mentioned, it will be considered that the "old" rules are complied with.

Recommended actions

The key action to take is to ensure compliance when using both sets of rules to trade with various partners within the PEM area. Adhering to the transitional rules does not automatically guarantee that the old rules are also complied with, and vice versa; in case you trade with multiple countries in the PEM area, it will be crucial to follow up in-house whether the differentiation between the two sets of rules has been implemented correctly (for instance in your ERP system, your (long-term) supplier's declarations and your tolerance calculations).

Our Deloitte team can assist you in understanding the impact of the changes and the implementation of the new rules to ensure you can benefit from them.

Deloitte's Global Trade Advisory specialists are part of a global network of professionals who can provide specialised assistance to companies in global trade matters.

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