



## **PECC Trade Forum**

# **Business Perspectives on Rules of Origin in Singapore's Concluded Free Trade Agreements**

**Edmund Leow**

**September 1, 2003  
Bandar Sri Bagawan  
Brunei Darussalam**

# **Pacific Economic Cooperation Council**

4 Nassim Road Singapore 258372 Tel: +65 67379822 Fax: +65 67379824 Email: [info@pecc.org](mailto:info@pecc.org)  
[www.pecc.org](http://www.pecc.org)



**15<sup>th</sup> PECC General Meeting**  
Brunei Darussalam



**Focus Workshop on Trade**

September 1, 2003  
Room J-3  
International Convention Centre

**Business Perspective Rules of Origin in  
Singapore's Concluded Free Trade Agreements**

Edmund Leow  
Baker & McKenzie Wong & Leow

**Pacific Economic Cooperation Council**

4 Nassim Road Singapore 258372 Tel: +65 67379822 Fax: +65 67379824 Email: [info@pecc.org](mailto:info@pecc.org) www.pecc.org



# Business Perspective on Rules of Origin in Singapore's Concluded Free Trade Agreements

1 September 2003

15<sup>th</sup> Pacific Economic Cooperation Council (PECC)  
General Meeting – Focus Workshop on Trade

Edmund Leow

# Overview

- Singapore's Free Trade Agreements (FTAs)
- Comparison of Rules of Origin in Singapore's FTAs
- "ROO" for Services
- Practical Concerns

# Singapore's Free Trade Agreements (FTAs)

# Singapore's FTAs

- United States – Singapore Free Trade Agreement (USSFTA)
- ASEAN Free Trade Agreement (AFTA)
- Japan Singapore Economic Partnership Agreement (JSEPA)

## Singapore's FTAs

- Singapore - Australia Free Trade Agreement (SAFTA)
- Agreement between New Zealand and Singapore on a Closer Economic Partnership (ANZSCEP)
- European Free Trade Association – Singapore Free Trade Agreement (ESFTA)

# Comparison of Rules of Origin (ROO) in Singapore's FTAs

# ROO in Singapore's FTAs

- General Concepts
  - To qualify as originating:
    - Wholly Obtained Products
    - Manufactured Products
      - Main Principle: “Substantial Transformation”
      - Variations in Singapore's FTAs

# ROO in Singapore's FTAs

- “Substantial Transformation”
  - Change in Tariff Classification (CTC) Rule
  - Value – Add (VA) Rule / Local Content Rule
  - Process Rule
- Variations from “Substantial Transformation”
  - Outward Processing
  - Integrated Sourcing Initiative

# ROO in Singapore's FTAs

- Change in Tariff Classification (CTC)
  - The focus is on the transformation of imported or non-originating inputs into the finished product.
  - Substantial Transformation is deemed to have occurred if there is a change in tariff classification.
  - Normally with reference to the Harmonised System of Classification.

## ROO in Singapore's FTAs

- Value Added (VA)/Local Content Rule
  - The focus is on the total local value that makes up the final value of the finished product.
  - For example: “The value of the non-originating material of the good does not exceed 40%”.

# ROO in Singapore's FTAs

- Process Rule
  - The focus is on a specific production process.
  - For example: “Any good of Chapter X that is a product of a chemical reaction shall be considered to be an originating good if the chemical reaction occurred in the territory of the Parties.”
  - This rule occasionally applies to chemical and petrochemical products.

## ROO in Singapore's FTAs

- Variations from “Substantial Transformation”
  - Outward Processing (OP)
    - This would only apply to goods where the local content/VA rule applies.
    - Allows activities prior to outward processing to be counted towards local content.

# ROO in Singapore's FTAs

- Variations from “Substantial Transformation”
  - Outward Processing (OP)
    - For example:
      - Stage 1 – Singapore
      - Stage 2 – Foreign Country
      - Stage 3 – Singapore
      - OP allows both Stage 1 and 3 to be taken into account in determining local content.
    - OP is an important concept in Singapore FTAs.

## ROO in Singapore's FTAs

- Variations from “Substantial Transformation”
  - Integrated Sourcing Initiative (ISI)
    - Peculiar to the USSFTA.
    - Under the ISI, certain IT components and medical devices are not subject to ROOs when shipped from either Parties to the FTA.
    - This means that products in ISI list are conferred immediate Singapore (or US) origin.

# ROO in Singapore's FTAs

FTA	Product Specific ROOs?	Applicable Rule(s)	Comments
ESFTA	Product Specific	<p>CTC rule</p> <p>VA rule for some products</p> <p>Process rule for certain chemicals/ petrochemical products</p>	<p>Final product must have undergone a change in tariff heading from the materials used in its production.</p> <p>Alternatively, certain specified products will qualify for preferential tariff treatment if SG content is certain percentage (ranging from 40% to 80%) of ex-works price.</p> <p>Manufacturers that source inputs from overseas may include EFTA or SG component of these inputs towards the specified percentage.</p> <p>Products which undergo the specified manufacturing process or processes in SG will be conferred SG origin.</p>

# ROO in Singapore's FTAs

FTA	Product Specific ROOs?	Applicable Rule(s)	Comments
SAFTA	General rule that applies to all products	VA rule	<p>Most products - local content at least 50% of cost price.</p> <p>Selected products listed in Annex - lower threshold of 30% applies.</p> <p>Manufacturers that source inputs from overseas can include the AU component of the inputs as part of the SG content.</p>
USSFTA	Product Specific	<p>CTC rule</p> <p>VA rule for some products</p> <p>Process rule for certain chemicals / petrochemical products</p>	<p>Final product must have undergone a change in tariff heading from the materials used in its production.</p> <p>Alternatively, certain electronics products will qualify for preferential tariff treatment if SG content is certain percentage (ranging from 30% to 60%).</p> <p>Products which undergo the specified manufacturing process or processes in SG will be conferred SG origin.</p>

# ROO in Singapore's FTAs

FTA	Product Specific ROOs?	Applicable Rule(s)	Comments
<b>ANZSCEP</b>	General rule that applies to all products	VA rule	<p>At least 40% of the ex-factory or works cost is of NZ or SG origin and if last place of manufacture is NZ or SG</p> <p>Manufacturers that source inputs from overseas may include NZ or SG component of the inputs towards the 40%.</p>
<b>JSEPA</b>	Product specific	<p>CTC rule</p> <p>VA rule for some products</p>	<p>Final product must have undergone a change in tariff heading from the materials used in its production.</p> <p>Alternatively certain specified products will qualify if SG content is at least 60% of the selling (FOB) price.</p> <p>Manufacturers that source inputs from overseas may include JP or SG component of these inputs towards the 60%.</p>

# ROO in Singapore's FTAs

FTA	Product Specific ROOs?	Applicable Rule(s)	Comments
AFTA	General rule that applies to all products	VA rule	<p>At least 40% of the content originates from any Member States.</p> <p>Cumulative ROOs which state that products which are used in a Member State as inputs for a finished product eligible for preferential treatment in another Member State shall be considered as products originating in the Member State where the working or processing of the finished product has taken place, provided that the aggregate ASEAN content of the final product is not less than 40%.</p>

# “ROO” for Services

## “ROO” for Services

- Concept of “person” of Party
  - Normally includes:
    - Natural Persons
      - Nationals
      - Permanent residents
    - Legal Persons / Corporations
      - Legal entity established under the laws of that Party
  - For example, in ANZSCEP and SAFTA.

## “ROO” for Services

- Concept of “person” of Party
  - Please note that certain FTAs limit the definition of “person” of Party, in relation to corporate bodies, by requiring some connection with the territory.

## “ROO” for Services

- Concept of “person” of Party
  - For example, in JSEPA, in addition to incorporation under the laws of the Party, the Corporation, if “owned or controlled” by natural persons of non-parties or legal persons constituted under laws of non-parties, the Corporation must be engaged in “substantive business operations” in the territory of the Party.

## “ROO” for Services

- Concept of “person” of Party
  - JSEPA
    - “Control”: power to name majority of directors or legally direct actions of Co.
    - “Owned by natural persons of non-parties”: if more than 50% of equity interest in Co. is beneficially owned by natural persons of non-parties.

## “ROO” for Services

- Concept of “person” of Party
  - USSFTA
    - For trade in services, “enterprise of other party” means enterprise constituted under the laws of a Party and a branch located in the territory of a Party and carrying out business there.

# Practical Concerns

## Practical Concerns

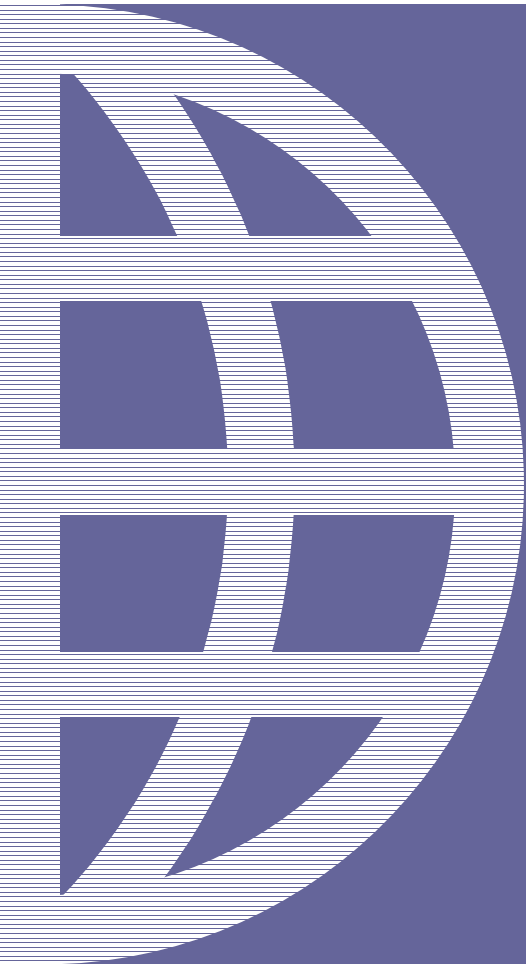
- Businesses will focus on FTAs with major export markets.

## Practical Concerns

- Trade facilitation provisions in FTAs will actually decrease transaction costs between parties, for example:
  - JSEPA – clearance of low risk goods with minimal verification procedures.
  - USSFTA & JSEPA – facilitation of e-commerce.
- But more beneficial to global exporters.

## Practical concerns

- Trade in services
  - Different concessions – global companies which have many international subsidiaries / branches will benefit more than national small and medium enterprises as they will have more options.



The End

Edmund Leow