

REGIONAL CONVENTION
ON PAN-EURO-MEDITERRANEAN
PREFERENTIAL RULES OF ORIGIN
(PEM Convention)

27.11.2015.

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Introduction

Regional Convention on pan – euro – Mediterranean preferential rules of origin (PEM Convention)

- An International agreement which prescribes a single set of rules of origin of goods.
- Intended to replace the origin rules in all Free Trade Agreements (FTAs) between the Contracting Parties to the PEM Convention with a single legal instrument fixing rules of origin
- The final goal is creating one big zone of diagonal cumulation (merging PEM and SAP cumulative zone)
- Came into force on 1.09.2014., published in Official Gazette of the RS – International Agreements, no 7/13
- 23 Contracting Parties (EU, EFTA States, Turkey, Participants in the EUs Stabilisation and Association Process and Mediterranean Countries - MEDs)
- Text of the Convention has **10 Articles** and **two Appendixes**
- **Appendix I** sets out general rules for the definition of the concept of originating products and the methods of administrative cooperation and
- **Appendix II** sets out special provisions applicable between certain Contracting Parties and derogating from the provisions laid down in Appendix I (for Serbia Annexes I and VIII are relevant).

Current state of play regarding ratification of the Convention

Страна уговорница	Датум потписивања	Датум ратификације	Датум ступања на снагу
Европска унија	15/06/2011	26/03/2012	01/05/2012
Исланд	30/06/2011	12/03/2012	01/05/2012
Лихтенштајн	15/06/2011	28/11/2011	01/01/2012
Норвешка	15/06/2011	09/11/2011	01/01/2012
Швајцарска	15/06/2011	28/11/2011	01/01/2012
Алжир	05/10/2012		
Египат	09/10/2013	23/04/2014	01/06/2014
Израел	10/10/2013	28/08/2014	01/10/2014
Јордан	07/07/2011	16/08/2013	01/10/2013
Либан			
Мароко	18/04/2012		
Палестина	18/09/2013	27/05/2014	01/07/2014
Сирија			
Тунис	16/01/2013		
Турска	04/11/2011	13/07/2013	01/02/2014
Албанија	27/06/2011	05/03/2012	01/05/2012
БиХ	24/09/2013	26/09/2014	01/11/2014
Хрватска (ЕУ чланица од 01/07/2013)	15/06/2011	20/01/2012	01/03/2012
Македонија	15/06/2011	14/06/2012	01/08/2012
Црна Гора	15/06/2011	02/07/2012	01/09/2012
Србија	12/11/2012	01/07/2013	01/09/2013
Косово у складу са РСБ УН1244			
Фарска острва	15/06/2011	09/09/2013	01/11/2013

The importance of the Convention for Serbia

- The full implementation of the Convention will provide for expanded diagonal cumulation (between EFTA states and SAP countries; between SAP countries and MEDs)
- **SAP** cumulation – allows diagonal cumulation between **EU**, **SAP** countries and **Turkey**
- **SAP +** cumulation – as a part of PEM cumulation will provide diagonal cumulation between **EU**, **SAP** Countries, **Turkey** and **EFTA** States.
- **PEM** cumulation – further possibilities for extending the zone of diagonal cumulation to MEDs, if in the future with some of them Serbia concludes a free trade agreement.

Implementation of the Convention

- All bilateral and multilateral FTAs which are in force between Contracting Parties to the Convention have to be modified in a way to make the reference to the PEM Convention for the purposes of the application of rules of origin
- Although the Convention is came into force in the majority of the Contracting Parties which have ratified it, it still does not have a big impact or is applied among all Parties, because the **process of implementation of the Convention starting with the modification of all free trade agreements.**

Dates on application on rules of origin which provides diagonal cumulation in pan-euro-Mediterranean zone

	Države EFTA-e					Države uključene u Barcelonski proces										Države uključene u Proces stabilizacije i pridruživanja EU-a					
	EU	CH (+ LI)	IS	NO	FO	DZ	EG	IL	JO	LB	MA	PS	SY	TN	TR	AL	BA	KO	ME	MK	RS
EU		1.1.2006.	1.1.2006.	1.1.2006.	1.12.2005.	1.11.2007.	1.3.2006.	1.1.2006.	1.7.2006.		1.12.2005.	1.7.2009.		1.8.2006.	(2)				(C) 1.2.2015.		(C) 1.2.2015.
CH (+ LI)	1.1.2006.		1.8.2005. (C) 1.7.2013.	1.8.2005. (C) 1.7.2013.	1.1.2006.		1.8.2007.	1.7.2005.	17.7.2007.	1.1.2007.	1.3.2005.			1.6.2005.	1.9.2007.		(C) 1.1.2015.		(C) 1.9.2012.		
IS	1.1.2006.	1.8.2005. (C) 1.7.2013.		1.8.2005. (C) 1.7.2013.	1.11.2005.		1.8.2007.	1.7.2005.	17.7.2007.	1.1.2007.	1.3.2005.			1.3.2006.	1.9.2007.		(C) 1.1.2015.		(C) 1.10.2012.		
NO	1.1.2006.	1.8.2005. (C) 1.7.2013.	1.8.2005. (C) 1.7.2013.		1.12.2005.		1.8.2007.	1.7.2005.	17.7.2007.	1.1.2007.	1.3.2005.			1.8.2005.	1.9.2007.		(C) 1.1.2015.		(C) 1.11.2012.		
FO	1.12.2005.	1.1.2006.	1.11.2005.	1.12.2005.																	
DZ	1.11.2007.																				
EG	1.3.2006.	1.8.2007.	1.8.2007.	1.8.2007.					6.7.2006.		6.7.2006.			6.7.2006.	1.3.2007.						
IL	1.1.2006.	1.7.2005.	1.7.2005.	1.7.2005.					9.2.2006.						1.3.2006.						
JO	1.7.2006.	17.7.2007.	17.7.2007.	17.7.2007.			6.7.2006.	9.2.2006.			6.7.2006.			6.7.2006.	1.3.2011.						
LB		1.1.2007.	1.1.2007.	1.1.2007.																	
MA	1.12.2005.	1.3.2005.	1.3.2005.	1.3.2005.			6.7.2006.		6.7.2006.					6.7.2006.	1.1.2006.						
PS	1.7.2009.																				
SY															1.1.2007.						
TN	1.8.2006.	1.6.2005.	1.3.2006.	1.8.2005.			6.7.2006.		6.7.2006.		6.7.2006.				1.7.2005.						
TR	(2)	1.9.2007.	1.9.2007.	1.9.2007.			1.3.2007.	1.3.2006.	1.3.2011.		1.1.2006.		1.1.2007.	1.7.2005.							
AL																	(C) 1.2.2015.		(C) 1.4.2014.	(C) 1.4.2014.	(C) 1.4.2014.
BA		(C) 1.1.2015.	(C) 1.1.2015.	(C) 1.1.2015.											(C) 1.2.2015.				(C) 1.2.2015.	(C) 1.2.2015.	(C) 1.2.2015.
KO																					
ME	(C) 1.2.2015.	(C) 1.9.2012.	(C) 1.10.2012.	(C) 1.11.2012.												(C) 1.4.2014.	(C) 1.2.2015.			(C) 1.4.2014.	(C) 1.4.2014.
MK																(C) 1.4.2014.	(C) 1.2.2015.		(C) 1.4.2014.		(C) 1.4.2014.
RS	(C) 1.2.2015.															(C) 1.4.2014.	(C) 1.2.2015.		(C) 1.4.2014.	(C) 1.4.2014.	

Transitional period until full implementation of the Convention

- The transitional period for starting of the application of the Convention between EU, SAP Countries and EFTA (SAP+) is the first quarter of the 2016
- Until then in parallel functioning:
 - the existing diagonal cumulation provided by the FTAs in force, because the primary interest is non infringement of the existing cumulation in the transitional period and
 - diagonal cumulation by the application of the Convention, between those Contracting Parties which have ratified the Convention

Implementation of the Convention within CEFTA Agreement

- **The Decision no 3/13 of the CEFTA Joint Committee** from 20.11.2013, published in Official Gazette of the RS no 28/14. Came into force on 1st April 2014
- By this decision the Protocol on rules of origin in CEFTA Agreement has been replaced with new Protocol on rules of origin, by which the CEFTA Agreement is linked with PEM Convention.
- Article 1. of the Annex of the Decision, prescribes that for the purpose of implementing of rules of origin, Appendix I and the relevant provisions of Appendix II to the Convention, shall apply.
- Since 1st April 2014 the Convention shall apply between **Albania, Serbia, Montenegro, Macedonia** and **Bosnia and Herzegovina**.

The Convention shall apply on:

1. Products wholly obtained in Albania, Serbia, Montenegro, Macedonia and Bosnia and Herzegovina;
2. Final products with preferential origin of Albania, Serbia, Montenegro, Macedonia and Bosnia and Herzegovina obtained by sufficient working and processing in accordance with rules from the List of working and processing;
3. Final products with preferential origin of Albania, Serbia, Montenegro, Macedonia and Bosnia and Herzegovina for which the preferential origin is confirmed by the customs authority of the exporting Party, for the purpose of mutual trade between Albania, Serbia, Montenegro, Macedonia and Bosnia and Herzegovina.

Implementation of the Convention within CEFTA Agreement

What is new with regard to rules of origin and proof of origin?

- As regards the rules of origin, they are identical as in old Protocol in CEFTA Agreement, **except regarding proof of origin.**
- Movement certificate EUR.1 series A (Annex IIIa of the Convention), i.e. origin declaration (Annex IVa of the Convention) shall be used.
- The difference between new and old proofs of origin is that new proofs of origin does not contain note "cumulation applied with", i.e. "no cumulation applied"

Implementation of the Convention within CEFTA Agreement

Transitional provisions – cumulation

- Notwithstanding Article 3 of Appendix I to the Convention, the rules on cumulation provided for in the old Articles 3 and 4 of Annex 4, the Protocol Concerning the Definition of the Concept of “Originating Products” and Methods of Administrative Cooperation, shall continue to apply between the CEFTA Party in which the Convention has not yet entered into application and other CEFTA Parties until the Convention has entered into application with relation to the respective CEFTA Party.
- Notwithstanding Articles 16 (5) and 21 (3) of Appendix I of the Convention, where cumulation involves only EFTA States, the Faroe Islands, the EU, Turkey and CEFTA Parties, the proof of origin may be a movement certificate EUR.1 or an origin declaration.

Implementation of the Convention within SAA

- **The Decision no 1/14** of the EU – Serbia SAA Council, adopted on 17. December 2014. Came into force on 1st February 2015.
- By this decision the Protocol on rules of origin in SAA Agreement has been replaced with new Protocol on rules of origin, by which the SAA Agreement is linked with PEM Convention.
- Currently, the Convention shall apply between **EU, Serbia, Montenegro and Albania (still waiting Macedonia and BiH)**
- Movement certificate EUR.1 series A (Annex IIIa of the Convention), i.e. origin declaration (Annex IVa of the Convention) shall be used.
- Notwithstanding Article 3 of Appendix I to the Convention, the rules on cumulation provided for in the old Articles 3 and 4 of Protocol 3 of the SAA (the Protocol on rules of origin), shall continue to apply until the Convention has become applicable for all contracting parties to the Convention, mentioned in those Articles.

Further steps regarding modification of the protocols on rules of origin in other FTAs

- The modification of protocols on rules of origin in:
 - Free trade Agreement between Serbia and Turkey
 - Free trade Agreement between Serbia and EFTA States
- It is expected to be done in the first quarter of 2016.

Revision of the Convention

- In parallel with the process of signing and ratifying the Convention, takes place the process of revision of rules of origin contained in the Convention, in order to further simplification and facilitation.
- The revision process is takes place under the responsibility of the PEM Working Group, chaired by DG TAXUD. The members of the WG are the delegates from the Contracting Parties to the Convention
- When the revision process is completed, such revised text will replace the existing.

Revision of the Convention

Proposals for further simplification and facilitation

- SAP participants are to be transferred from point 3. of the Article 3. into point 1. of the Article 3. (provisions on cumulation),
- abolition of non drawback rule for non originating materials ,
- when the specific rule is based on maximum content of the non originating materials – it is envisaged possibility to calculate an average ex works price of the product and average value of the non originating materials having in mind price fluctuation (with the authorization of the customs authority).
- simplification of the „direct transport“ rule (non alteration rule), allows for splitting of consignments, allows for storage under customs supervision, no need for systematic proof: the rule is considered as satisfied, unless customs have reason to believe the contrary
- general tolerance rule - proposals for increasing the tolerance from 10% up to 15% or 20%,
- principle of territoriality - proposals for increasing the tolerance from 10% up to 15% and including a textiles in the scope of this provision,

Revision of the Convention

- retrospectively issuing of the proofs of origin will be possible also in the case when final destination of the goods is unknown, but become known during the transportation or warehousing or after splitting of consignment
- possibility of issuing the replacement proofs of origin for consignment in storage under customs supervision - extended to authorized exporter
- introduction of the Registered Exporter System (REX) at a later stage
 - For the goods produced in the free zones, customs authorities shall issue a new certificate of origin. Proposed> The possibility for the making out of origin declarations by authorised exporters as well.

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- **Proposals on modification of Product specific rules (PSR) from the List of working and processing**
- **For certain agricultural products** (Chapters 4,8,13,17-23) instead of the value, proposed quantitative requirement for the sugar content in the final product (share of 30-40% by weight of the product). Some Chapters are provisionally agreed (Chapters 1,2, 3, 6, 7, 9,10,14,16). Others are still open and subject to further discussion
- **For industrial products** (Chapters 25-49 and 64-97) the agreement has been reached for Chapters 26, 30 and 35. Other positions are still open.
- For Chapter 85 –single horizontal rule is proposed (CTH + alternative value added rule 50%).
- **For textile products (Chapters 50-63)** the final agreement has not yet reached, in particular with regard to general tolerance rule for textile.
- **In general** – proposed PSR are liberalized and simplified, in particular with regard to content of non originating materials in final product.

Revision of the Convention

Full cumulation - possibility to generalise its application within the PEM zone

- Full cumulation means that all operations carried out in the zone of full cumulation are taken into account for origin determination purposes, i.e. the area of all participants in the cumulation is considered as one area for origin determination.
- It is not necessary that the material acquires origin before being sent to the other party for further working or processing.
- Full cumulation refers mainly to working or processing of textile products, but this does not exclude other products.
- The supplier's declaration serve as evidence of the working or processing undergone in a Contracting Party.
- Full cumulation allows for greater fragmentation of the production process than the more commonly used bilateral and diagonal cumulation and hence is less restrictive.

Revision of the Convention

- Target date for finishing the revision process - 2016
- Beginning of implementation of the revised Convention - 2017

Thank you

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