

# OUTLINE OF RULES OF ORIGIN

CUSTOMS AND TARIFF BUREAU  
MINISTRY OF FINANCE  
JAPAN

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- About this brochure -

This brochure aims to introduce the basic concepts of rules of origin (ROO). For ease of understanding, some words and expressions used in this brochure may be different from what is provided for in the legal texts (e.g. Economic Partnership Agreements). For questions, please contact the ROO divisions of Japan Customs listed at the end of the brochure.

July 2017

Customs and Tariff Bureau, Ministry of Finance

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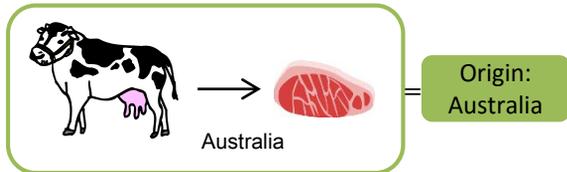
# 1 WHAT ARE RULES OF ORIGIN?

Rules of origin (ROO) are the rules to determine the country of origin of goods. Since the application of a certain customs and tariff policy (i.e. applicable tariff rates) depends on the origin of goods, ROO is necessary so that the origin of goods is determined in an objective manner.

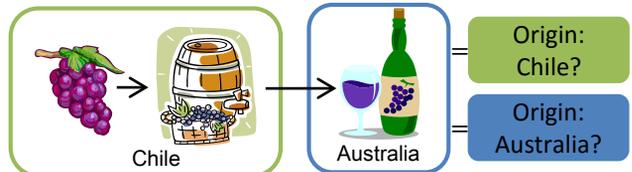
## Why do we need rules of origin?

If only one country is involved in the production of a good, it is fairly straightforward to determine the country of origin (see Case 1). On the other hand, if more than one country is involved in the production (see Case 2), there must be a rule to determine which country is the origin of the good. Rules of origin also play a role in ensuring that the preferential tariff rates are applied only to the originating goods of the eligible countries (i.e. anti-circumvention).

### Case 1 Beef produced from cattle born and raised in Australia

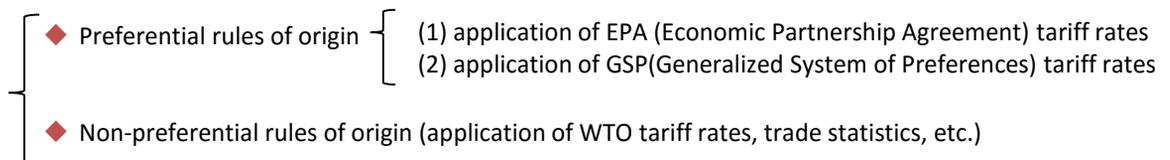


### Case 2 Wine fermented in Chile from grapes harvested in Chile, and bottled in Australia



## Types of rules of origin

Rules of origin are categorized into preferential rules of origin and non-preferential rules of origin. Preferential rules of origin include the rules for the application of the preferential tariff rates under Economic Partnership Agreements (EPA) and the rules for the application of the preferential tariff rates under the Generalized System of Preferences (GSP). Non-preferential rules of origin are applied to determine the country of origin for the purposes other than granting of preferential tariff treatment (such as the application of WTO tariff rates, trade statistics, etc.).



## Rules of origin and origin procedures

Rules of origin generally consists of origin criteria and origin procedures. Origin criteria stipulate conditions or requirement for a good to be considered as 'originating'. Origin procedures provide for the course of action to be followed when applying the preferential tariff rates.

\* Origin criteria include not only the definition of originating goods but also other provisions such as 'accumulation' (considering originating goods of a party as that of another party) and 'de minimis' (allowing the use of non-originating material(s) up to a certain limit). Please note that this brochure focuses on the general definition of originating goods and does not cover details of various provisions. For further details, please refer to the information regarding the respective rules of origin.

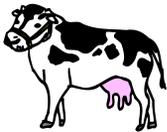
# 2 ORIGIN CRITERIA OF EPA

As of April 2017, Japan is a party to 15 Economic Partnership Agreements (EPA). Under the Customs Act of Japan, the provisions on rules of origin in each agreement are directly applied.

In general, originating goods are either: “wholly obtained goods”, “goods produced exclusively from originating materials”, or “goods satisfying the product-specific rules (PSR)”. Please note that the rules of origin of each EPA reflect the result of negotiations with the partner countries, thus there are slight differences from one agreement to another.

## Wholly obtained goods

Wholly obtained goods are the goods whose production is completed in one country.



Example: Live animal born and raised in the territory of a country (livestock)



Example: Minerals and other natural resources extracted or taken in the territory of a country (crude oil)

## Goods produced exclusively from originating materials

Goods produced exclusively from originating materials are the goods produced using originating materials only. Because all the materials used in the production are originating materials, the production is seemingly completed in one country. However, there is the case where materials from a third country (i.e. non-originating materials) are used in the production of the originating materials.



## Goods satisfying the product-specific rules (PSR)

Even if the materials from third countries (non-originating materials) are used in the production, goods are considered as originating when the goods satisfy the requirement set out in the product-specific rules (PSR). PSR is generally provided as an annex to each EPA.

In most of the EPAs that Japan is a party to, PSR is stipulated in the form of either: “change in tariff classification”, “qualifying/regional value content”, “specific manufacturing or processing”, or a combination of these.

### (1) Change in tariff classification

Goods are considered as originating if there is a certain change between the tariff classification of the non-originating materials and the tariff classification of the (final) goods.

(Example) PSR for soya sauce of subheading 2103.10 under Japan-Thailand EPA: change of heading (change in the first 4 digits of the HS: Harmonized Commodity Description and Coding System)\*

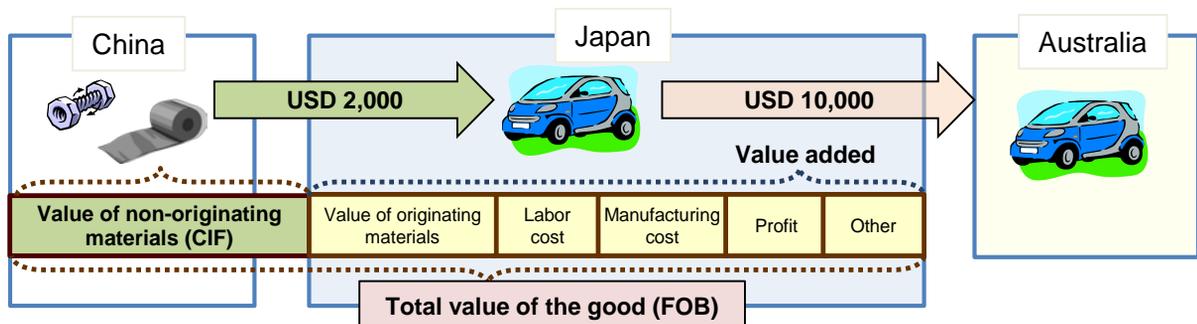


\* Tariff classification is based on the Harmonized System (the Harmonized Commodity Description and Coding System). Under the Harmonized System (HS), classification numbers are allocated to each commodity/item in Chapter (2 digit), Heading (4 digit), and Subheading (6 digit).

### (2) Qualifying Value Content (QVC)/Regional Value Content (RVC)

Goods are considered as originating if a certain value (%) is added through the production undertaken in the territory of a party/country, and the value added exceeds the prescribed threshold (%).

(Example) PSR for a passenger vehicle of heading 87.03 under Japan-Australia EPA: the value added in the country of manufacture (Qualifying Value Content) is not less than 40% and the last process of production has been performed in the exporting party

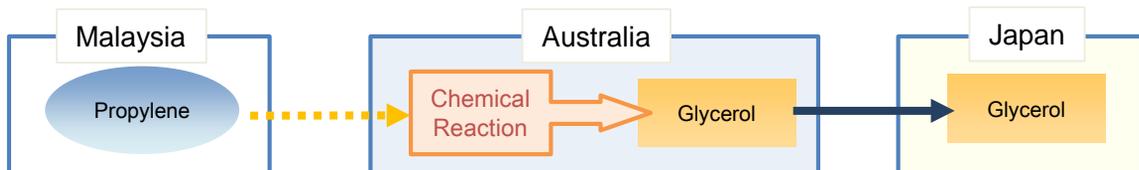


$$\frac{\text{Value of good (USD 10,000)} - \text{Value of non-originating materials (USD 2,000)}}{\text{Value of good (USD 10,000)}} = 80\% (> 40\% \text{ QVC})$$

### (3) Specific manufacturing or processing

Goods are considered as originating if the goods undergo a specific manufacturing or processing such as chemical reaction, distillation, purification, etc. in the territory of a party/country.

(Example) PSR for glycerol of subheading 2905.45 under Japan-Australia EPA: the good has undergone a chemical reaction in the area of a party. Chemical reaction is defined as a process which results in a molecule with a new structure.



# 3 ORIGIN CRITERIA OF GSP

Under the Generalized System of Preferences (GSP), Japan grants preferential tariff treatment (lower tariff rates) to the originating goods of the eligible developing countries. The rules of origin of GSP are stipulated in the Cabinet Order and Finance Ministry Ordinance for the Enforcement of the Act on Temporary Measures concerning Customs.

Originating goods under GSP are either: “wholly obtained goods” or “goods that have undergone substantial transformation”.

## Wholly obtained goods

Goods are considered as originating goods of a beneficiary country if the goods are wholly obtained or produced in a single beneficiary country. The concept is almost the same as the wholly obtained goods under EPAs. Its definition is provided for in Article 8 of the Ordinance for the Enforcement of the Act on Temporary Measures concerning Customs.

## Goods that have undergone substantial transformation

Even if the goods are produced using materials from other countries, goods are considered as originating goods of a beneficiary country if the goods are produced through a manufacturing or processing which satisfies the requirement to be considered as ‘substantial transformation’.

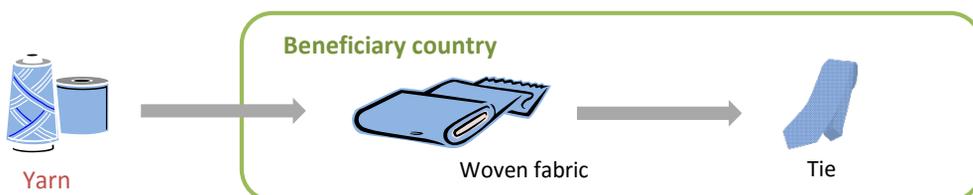
In general, substantial transformation requires such production that leads to a change of heading (HS 4 digit) between the tariff classification of the non-originating materials and the good produced. It is provided for in Article 8 of the Ordinance for the Enforcement of the Act on Temporary Measures concerning Customs.

(Example) Tableware of heading 69.11



As for the goods listed in the Appendix to the Ordinance for the Enforcement of the Act on Temporary Measures concerning Customs, a good needs to satisfy the requirements provided in the Appendix to be considered as originating.

(Example) rule listed in the Appendix for a tie of heading 62.15: manufacture from yarn



However, even if the above criteria are satisfied, goods are NOT considered as originating if the last processing operation is either: to ensure the preservation of the product in good condition during transport and storage, simple cutting, repacking, affixing of marks, etc.

# 4 NON-PREFERENTIAL RULES OF ORIGIN

As for non-preferential rules of origin, each country has its own rules in accordance with the WTO Agreement on Rules of Origin.

In Japan, non-preferential rules of origin are provided for in the Cabinet Order for the Enforcement of the Customs Act, etc. Under these regulations, in general, the country of origin of the imported goods is determined by the following:

- Goods wholly obtained in a single country or area as defined in Finance Ministry Ordinance for the Enforcement of the Customs Act.
- Goods produced using materials not wholly obtained in the country of production, while having undergone a manufacturing or processing operation which qualifies as substantial transformation defined in Finance Ministry Ordinance for the Enforcement of the Customs Act.

## Wholly obtained goods

The definition of wholly obtained goods is basically the same as that of EPA and GSP. It is provided for in the Finance Ministry Ordinance for the Enforcement of the Customs Act.

## Goods that have undergone substantial transformation

Substantial transformation is defined as such manufacturing or processing that leads to change of heading (HS 4 digit) between the tariff classification of the non-originating materials and the classification of the good produced.

However, operation to ensure the preservation of the products in good condition during transport and storage, simple cutting, repacking, affixing of marks, etc. are NOT considered as substantial transformation even if change of heading occurs.

## Non-preferential rules of origin: scope of application

The following are the scope of application of the non-preferential rules of origin and the legal basis.

WTO tariff rate	Article 4-2.4 of the Order for the Enforcement of the Customs Act
Trade Remedies (such as Anti-dumping duty)	Cabinet Order concerning the Application of Anti-dumping Duty on a specific product (determined in accordance with Article 4-2.4 of the Order for the Enforcement of the Customs Act), etc.
Origin marking	Article 71 of Customs Act
Trade statistics	Japan Customs Notice on the Statistics concerning Foreign Trade 7-2 (determined in accordance with Article 4-2.4 of the Order for the Enforcement of the Customs Act)

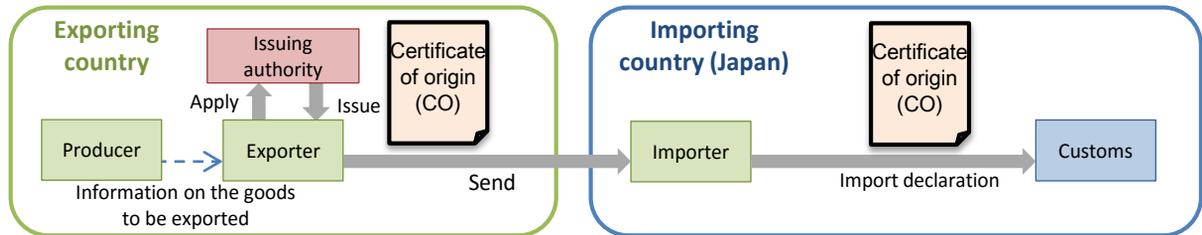
# 5 ORIGIN PROCEDURES

Origin procedures are the course of action to be followed when applying the preferential tariff rates. Origin procedures include the claim for the preferential tariff treatment at the time of importation by the importer, and (post-import clearance) verification conducted by the Customs of the importing country. Verification includes request for information from the importer or the government of the exporting country.

As for non-preferential rules of origin, the country of origin is confirmed by the invoice or other related documents, and thus no special procedure, such as submission of a certificate of origin (CO), is normally required.

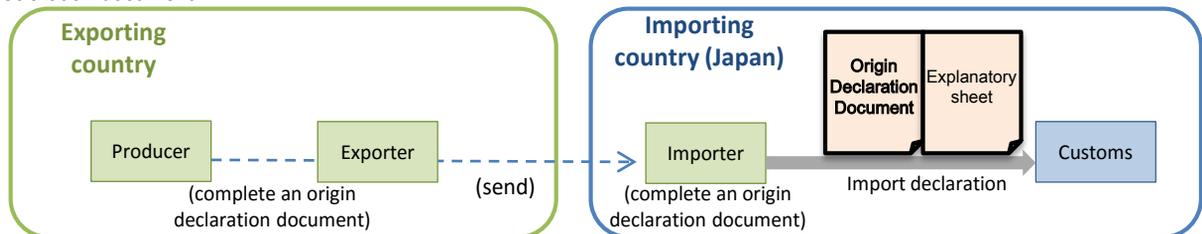
## Third Party Certification System

Under the third party certification system, the exporter applies for a certificate of origin (CO) to the CO issuing authority of the exporting country and sends the CO to the importer. The importer makes the claim for the preferential tariff treatment with the CO issued by the CO issuing authority of the exporting country. All of Japan's EPA as well as GSP apply this system. If the exporter is not the producer of the exported goods, the exporter may apply for a CO with the information from the producer on the originating status of the goods.



## Self-Certification System

Under the self-certification system, the importer declares that the goods are originating goods by submitting an origin declaration document which may be completed by either the importer, exporter, or producer of the goods. It is introduced under the Japan-Australia EPA, along with the third party certification system above. When claiming preferential tariff treatment with the self-certification, submission of an explanatory sheet on the originating status of the good is generally required in addition to the origin declaration document.



\* Either importer, exporter, or producer may complete an origin declaration document

## Approved Exporter Self-Certification System

Under the approved exporter self-certification system, the importer presents to Customs the origin of the good by submitting an origin declaration made by an approved exporter on an invoice or other commercial document. The exporting country certifies their exporters as eligible to make an origin declaration and informs the importing country (i.e. Japan) of the approved exporters. This system is applied under the Japan-Switzerland EPA, Japan-Peru EPA, and Japan-Mexico EPA along with the third party certification system above.

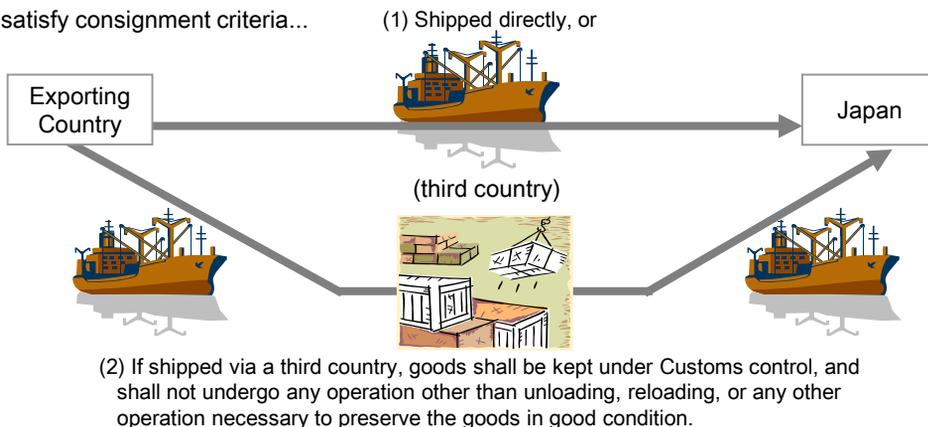
## Proof for consignment criteria (certificate of non-manipulation, etc.)

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Consignment criteria are the rules to determine whether an originating good maintains its originating status while being transported from the exporting country to the importing country. The originating status of the good is maintained: (1) if it is shipped directly without passing through a third country, or (2) when being shipped via a third country, if it does not undergo any operation other than unloading, reloading, or any other operation necessary to preserve it in good condition.

When claiming for preferential tariff treatment on the goods shipped via a third country, the importer needs to submit at the time of import declaration a document to prove that the consignment criteria are satisfied. Such proof includes a through bill of lading (B/L), a certificate of non-manipulation issued by the Customs authority of the third country, or other document Customs considers appropriate.

In order to satisfy consignment criteria...



## Verification

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Verification is a series of procedures conducted by the Customs of the importing country to confirm the originating status of the good which has been imported under the preferential tariff treatment. It is conducted in accordance with the provisions of the applicable EPA and relevant Customs-related laws and regulation. The purpose of verification is to ensure proper application of the preferential tariff rates.

As for the verification with the importer, Japan Customs may either send a written request for information or conduct a visit to the premises of the importer as part of the Post Clearance Audit. Customs verifies whether the goods are (were) originating based on the information provided by the importer.

When the origin of the good is not confirmed by the verification with the importer, Japan Customs may send a written request for information to the competent authority of the exporting country (e.g. the CO issuing authority), exporter or producer, or conduct a verification visit to the premises of the exporter or producer of the good.

If the origin of the good is not confirmed through the procedures above, the application of preferential tariff rates may be denied.

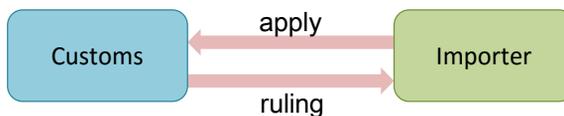
# 6 RELATED INFORMATION

Advance ruling is a useful tool for confirming the origin of a good in advance of importation. Information regarding rules of origin is available on the Japan Customs Website.

## Advance ruling

Importers and other relevant parties may make an inquiry to Customs regarding the origin of a good in advance of importation, which is called advance ruling. Advance ruling provides certainty on the tariff rate to be applied, which leads to greater predictability for traders in calculating the cost for the import and their business. Traders can also expect prompt customs clearance, because the assessment of the origin of the good has been completed prior to the import declaration: the ruling is respected by Customs if a copy (or the reference number) of the written advance ruling is submitted at the import declaration.

Advance ruling is issued in writing on the applicant's written request. The advance ruling is valid for three years.



(In principle, written advance ruling is issued within 30 calendar days; an inquiry made orally (e.g. over the phone) or via email normally has a reply on the same day)

\* Traders may make an inquiry orally (over the phone or the customs office counter) or by emails. However, any response to such oral/email inquiry is provided only for a reference purpose for traders and would NOT be respected by Customs.

## Rules of origin website ('ROO Portal' on the Customs website)

For easier access to the information regarding rules of origin, Japan Customs has established a dedicated portal website on rules of origin within the Japan Customs website. The portal provides information on various rules of origin as well as useful tips for making a claim for preferential tariff treatment at import declaration.

(URL: <http://www.customs.go.jp/roo/english/index.htm>)



## Reference materials on rules of origin

Japan Customs has published and is updating reference materials regarding rules of origin and also holds seminars on rules of origin regularly and upon request.

For further details on the content covered in this brochure, please refer to reference materials available on the Rules of Origin Portal.

## Contact points

	Telephone	Email
Hakodate Customs	0138-40-4255	hkd-gyomu-gensan@customs.go.jp
Tokyo Customs	03-3599-6527	tyo-gyomu-origin@customs.go.jp
Yokohama Customs	045-212-6174	yok-gensanchi@customs.go.jp
Nagoya Customs	052-654-4205	nagoya-gyomu-gensanchi@customs.go.jp
Osaka Customs	06-6576-3196	osaka-gensanchi@customs.go.jp
Kobe Customs	078-333-3097	kobe-gensan@customs.go.jp
Moji Customs	050-3530-8369	moji-gyomu@customs.go.jp
Nagasaki Customs	095-828-8801	nagasaki-gensanchi@customs.go.jp
Okinawa Regional Customs	098-943-7830	oki-9a-gensanchi@customs.go.jp

	Telephone	Email
Office of Rules of Origin, Customs and Tariff Bureau, Ministry of Finance	03-3581-8235	gensanchi@mof.go.jp
Origin Administration Center, Japan Customs	03-3599-6528	tyo-gyomu-roo-center@customs.go.jp