

Global Britain Briefing Note

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Rules of Origin: a peripheral low-ranking matter

“Rules of Origin” are a peripheral, obscure low-ranking technical matter, not an issue in the real world, barely on the radar of most exporting firms. Rules of origin only apply to trade in goods. Trade in services, income & transfers is free of customs duties and therefore of rules of origin.

Rules of origin are sets of bureaucratic rules enabling states to apply & collect customs duties on imports of *goods* only¹. If there were no customs duties there would be no rules of origin. Customs duties are a tax on British consumers & manufacturers. Worse, the tax so collected does not even stay in the UK: it belongs to the EU. Member states merely collect customs duties on behalf of the EU, then transfer them to Brussels less a 25% “handling charge”.

UK goods exports outside the EU are now of greater value than those going to the EU². **But that is not all. Since 2000, UK goods exports outside the EU have been growing more than twice as fast as UK goods exports to the EU³** (despite the alleged “benefits” of “access” to the EU).

UK goods exports to markets outside the EU are not of course subject to EU rules of origin - but they are subject to other countries’ rules of origin. Outside the EU, British exporters have to cope with the many different sets of rules of origin & customs regimes of approximately 160 importing countries (of which twenty - South Africa for example - have the same rules of origin as the EU). The fact that British goods exports have been growing at a healthy rate - over 5% annually on average, more than double the rate at which they have been growing to the EU - to so many countries outside the EU, is one indication that rules of origin are not much of a problem.

Another reason why rules of origin are not much of a problem overall is that only a **quarter of UK goods exports outside the EU bear any customs duties at all¹** (and if they do, at low average single-figure rates). The other three quarters of UK goods exports outside the EU bear zero duty, either because they are not subject to duties at all or because they are zero-rated. Examples include trade between developed countries in commodities such as oil & gas, and in manufactured products in aerospace, defence & IT equipment.

If the UK had been outside the EU in 2010, without any arrangements for free UK-EU trade in place, and thus had had to export goods to the remaining EU over the latter's customs duties & rules of origin, the estimated proportion – other things being equal - of UK worldwide exports (of goods, services, income & transfers) subject to EU duties would have been less than six per cent: **5.7% to be precise** – the detailed calculation is set out in the Appendix below. (UK goods exports outside the EU, which as noted above don't seem to find other countries' rules of origin a problem, would be unaffected by UK withdrawal).

Thus, even if UK exporters of goods found compliance with EU rules of origin problematic (extremely unlikely), in 2010, the crucial statistic is this: **under 6 per cent of UK worldwide exports (of goods, services, income & transfers) would have been affected** – *even in the absence of a UK-EU agreement on free trade*. If such a UK-EU agreement had been in place (highly likely), the proportion of UK exports subject to EU duties (and therefore rules of origin) would have been tending to zero.

But even the 5.7% estimate may be too high. Most World Trade Organisation (“WTO”) members' tariffs (i.e. customs duties) are “bound” at ceiling rates above which they can never normally be increased⁵. Since UK-EU tariffs are currently zero, it could be argued that, under the prevailing WTO rules, they would continue to be zero following UK withdrawal from the EU⁶.

To sum up: if the UK were outside the EU, even in the remotely improbable scenario (see above) in which no arrangements for UK-EU free trade were in place, so that UK goods exports to the remaining EU would be subject to EU rules of origin, **the overall impact on the UK's global trade would be somewhere between minimal and imperceptible** .

References

1. Readers may wish to Google “Rules of Origin” for more detail. “*Trading Places*” by Open Europe (<http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUTrade.pdf>) published in June 2012, has a different appreciation of rules of origin than the present Briefing Note.
2. “*UK exports of goods outside EU have now overtaken those to the EU...*”, Centre for Economics & Business Research, www.cebr.com, 18.7.12 (referring to Q2 ONS trade data).
3. *The Pink Book 2011, Table 9.4, Trade in Goods, Exports, page 108*. www.statistics.gov.uk > Economy > Balance of Payments > Pink Book 2011
4. Global Britain Briefing Note No 81, “*UK Customs Duties: very low on average & reducing*”, 7.9.12, www.globalbritain.org > Briefing Notes
5. Global Britain Briefing Note No 5, “*The World Trade Organisation*”, 19.11.99, www.globalbritain.org > Briefing Notes
6. See Written Answer, 7.11.12, House of Lords Hansard, Col WA 128

APPENDIX

What if the UK had been outside the EU in 2010 ? What proportion of UK global exports would have become newly subject to EU Rules of Origin on the UK's leaving the EU ?

- Currently, the UK applies the EU Common External Tariff (“CET”) to *imports* of goods from non-EU countries. In 2010, 75% by value of such imports entered the UK duty-free: that is to say, with zero customs duties, and thus without being subject to tests for EU Rules of Origin.
- If the UK had been outside the EU in 2010, without an EU-UK Free Trade Agreement in place (extremely unlikely), its *exports* of goods *to* the EU, originating in what had newly become a non-EU country (the UK), would have been subject to the CET.
- The assumption is that 75% by value of such UK goods *exports* to the EU would have entered EU countries with zero customs duties, and thus without being subject to EU Rules of Origin.
- UK goods exports *outside the EU* (which grew more than twice as fast between 2000 & 2010 than UK goods exports *to* the EU) would not be directly affected if the UK left the EU: they would continue with the same customs/rules-of-origin regimes as at present, irrespective of whether the UK were inside or outside the EU.

The table below shows UK total global exports & imports broken down by category & by EU-26/Rest of World:-

UK Global Exports & Imports in 2010: £ bn					
	Goods	Services	Income	Transfers	Total
Exports:-					
To EU-26	142#	68	54	9	273
To Rest of World	124	103	109	6	342
Exports to World	266	171	163	15	615
<i>Exports to World as percentage</i>	<i>43</i>	<i>28</i>	<i>27</i>	<i>2</i>	<i>100</i>
Imports:-					
From EU-26	186	57	63	19	325
From Rest of World	178	55	77	16	327
Imports from World	364	112	140	35	652
Balances:-					
With EU-26	(44)	11	(10)	(10)	(52)
With Rest of World	(54)	48	33	(10)	16
With World	(98)	59	23	(20)	(37)
<i>Source: The Pink Book 2011</i>					

Of this total of £ 142 bn, only a quarter, £ 35 bn, would have borne any customs duties had the UK been outside the EU in 2010 and exporting to the EU over the latter's CET. £ 35 bn as a proportion of total UK exports of all categories to the world in 2010 of £ 615 bn works out at:

Five point Seven per cent

Global Britain

Lord Stoddart of Swindon

(Independent Labour)

Lord Pearson of Rannoch

(United Kingdom Independence Party)

Lord Willoughby de Broke

(United Kingdom Independence Party)

Lord Harris of High Cross *(1924- 2006)*

(Cross-Bencher)

Ian Milne

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