

# Practical Aspects of Preferential Rules of Origin Criteria of Sri Lanka

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# Why Rules of Origin (ROO) Criteria ?

- To determine the  
***"Economic Nationality"*** of a  
product

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There are two types of ROO Criteria

1. Preferential ROO
2. Non Preferential ROO

# Why ROO important for the Exporters, Importers and the Authorities ?

Due to the following:

- 1. Preferential ROO Criteria-to claim eligible duty concession under a FTA/RTA
- 2. Non Preferential ROO are used as commercial policy measures such as to implement anti-dumping duties and countervailing duties, trade embargoes, safeguard and retaliation measures, quantitative restrictions, for tariff quotas, for trade statistics, for public tenders, for origin marking, trade statistical purpose etc.

# Different Types of R00 Criteria

1. Wholly obtained
2. Minimum Domestic Value Addition (DVA) or Maximum Percentage for imported inputs, Eg, Minimum of 35% DVA or Maximum non-originating content should not exceed 50% etc
3. Change of Tariff Heading- CTH (HS at 4 digit level) or Sub Heading CTSH (HS at 6 digit level)
4. Specific Process or Technical criteria (Eg. double transformation for Apparel)
5. Any combination of the above

# Wholly Obtained

- a. mineral products extracted from its soil or from its seabed;
- b. plants and vegetable products grown or harvested there;
- c. live animals born and raised there ;
- d. products from live animals raised there;
- e. products from slaughtered animals born and raised there;
- f. products obtained by hunting or fishing conducted there;
- g. products of aquaculture where the fish, crustaceans and molluscs are born and raised there;
- h. products of sea fishing and other products taken from the sea outside the territorial waters by its vessels;
- i. products made on board its factory ships exclusively from the products referred to in point (h);
- j. used articles collected there fit only for the recovery of raw materials;
- k. waste and scrap resulting from manufacturing operations conducted there;
- l. products extracted from the seabed or below the seabed which is situated outside its territorial waters but where it has exclusive exploitation rights;
- m. goods produced there exclusively from the products specified in (a) to (l).

Most of the list is self-explanatory; with the exception of the fishing products mentioned in (h) and (i), which deserve some further explanation. Products of sea fishing and other products taken from the sea - "Territorial waters"

How to check, through an affidavit (an affidavit form will be displayed)

# Domestic Value Addition (DVA)

- $$\text{DVA} = \frac{(\text{FOB or Ex factory Price}) - \text{CIF}}{(\text{FOB or Ex factory Price})} \times 100$$

FOB or Ex factory Price of Exporting product - Eg, \$ 50

CIF of imported or non originating raw materials - Eg, \$ 30

$$\text{DVA} = \frac{50-30}{50} \times 100 = \underline{40\%}$$

- Eg: EU GSP: HS heading 6601-umbrellas:

*"manufacture in which the value of all the materials used does not exceed 70% of the ex-works price of the product".*

- How to ascertain DVA through a Cost Statement (an approved cost sheet will **valid only for 06 months or one year depending on the scheme**) along with the supporting documents
- (Cost Statement will be displayed)

# Change of Tariff Heading- CTH (HS at 4 digit level) or Sub Heading CTSH (HS at 6 digit level)

- Eg. EU GSP- Chapter 64

*Footwear, gaiters and the like; parts of such articles; except for-  
Manufacture from materials of any heading, except from  
assemblies of uppers affixed to inner soles or to other sole  
components of heading 6406*

- Ascertaining through an approved Cost Sheet (an approved cost sheet will valid only for 06 months or one year depending on the scheme) along with the supporting documents

# Specific Process or Technical criteria

- **Eg. EU GSP- Chapter 64**

- woven fabrics of cotton of HS headings 5208 to 5212:  
*"weaving accompanied by dyeing or by coating"*

- Double transformation on apparel) 1. from Yarn to Fabric  
2. from Fabric to Clothing

- How to check, through an approved Cost Statement along with the supporting documents and production flow chart



# Cumulation

- Bilateral, between 02 countries
- Diagonal, more than 2 countries
- Regional, within the region i.e SAARC, ASEAN etc
- Cross Regional or Supper Regional  
i.e between SAARC and ASEAN

# Insufficient Process or Minimal Operations

- Product will not be considered as originated

(List of insufficient process or minimal operations will be displayed)

## Preferential Schemes where Sri Lanka is a member or a beneficiary country

| NAME OF AGREEMENT                               | Type           | MEMBERS   | SIGNED ON  | IN FORCE W.E.F. |
|---|----------------|---|------------|-----------------|
| Indo-Sri Lanka Free Trade Agreement (ISFTA)     | Reciprocal     | India and Sri Lanka   | 28.12.1998 | 01.03.2000      |
| Pakistan-Sri Lanka Free Trade Agreement (PSFTA) | Reciprocal     | Pakistan and Sri Lanka  | 01.08.2002 | 12.06.2005      |
| Asia-Pacific Trade Agreement (APTA)             | Reciprocal     | Bangladesh, China, S. Korea, Laos and Sri Lanka   | Nov. 2005  | 01.09.2006      |
| South Asian Free Trade Area (SAFTA)             | Reciprocal     | Afghanistan, Bangladesh, Bhutan, India, Pakistan, Nepal, Maldives and Sri Lanka                                       | 06.01.2004 | 01.01.2006      |
| Global System of Trade Preferences (GSTP)       | Reciprocal     | 43 Countries of G-77  | 1986       | 1988            |
| GSP (There are 13 GSP Schemes)                  | Non-reciprocal | Offered by EU, USA, Australia, Canada, Japan, Switzerland, Turkey, Norway, New Zealand Belarus and Russian Federation |            |                 |

# FTA / PTA Rules of Origin

| AGREEMENT  | DOMESTIC VALUE ADDITION (% OF FOB)      | DOMESTIC VALUE ADDITION UNDER CUMULATIVE ROO (% OF FOB) | CHANGE OF TARIFF HEADING |
|--|---|---|--------------------------|
| <ul style="list-style-type: none"> <li>• <b>Wholly obtained Products</b> <i>(Same criteria under all agreements as discussed)</i></li> </ul> |   |   |                          |
| <ul style="list-style-type: none"> <li>• <b>Not-Wholly obtained products:</b></li> </ul>   |   |   |                          |
| ISFTA  | 35%                                     | 25%   | 4-DIGIT LEVEL            |
| PSFTA  | 35%                                     | 25%   | 6-DIGIT LEVEL            |
| APTA   | NON-LDC 45%<br>LDC 35%                  | NON-LDC 60%<br>LDC 50%                                  | N/A                      |
| SAFTA  | NON-LDC 40%<br>LDC 30%<br>SRI LANKA 35% | 50%<br>(20% min. in<br>Exp. Country)                    | 4-DIGIT LEVEL            |
| GSTP   | NON-LDC 50%<br>LDC 40%                  | NON-LDC 60%<br>LDC 50%                                  | N/A                      |

# What does it mean Cost to the buyer (Landed price)

Entry point

F.O.B+ F & I

C.I.F.

Basic customs duty

- Other charges and duties  
(known as para tariff)
- Equivalent of internal taxes
- Ports & customs fees charged for  
services rendered
- Quality and safety inspections

**Cost to  
the buyer**

# How Duty Concessions work if the product is Duty Free under ISFTA

## Example 01

|   | <u>Import from ROW</u><br><u>A to India (US\$)</u> | <u>Import from</u><br><u>Sri Lanka to India (US\$)</u> |
|---|--|--|
| F.O.B. Value of one unit of product "X"         | 800  | 800  |
| Freight & Insurance                             | <u>50</u>  | <u>50</u>  |
| C.I.F.  | <u>850</u>   | <u>850</u>   |
| <b>Import Duty 35%</b>                          | <u>298</u>   | <u>0</u>   |
| <b>Landed cost / cost to the buyer in India</b> | <u>1148</u>  | <u>850</u>   |

Assume quality is same

# How Duty Concessions work if the product is Duty Free under ISFTA

## Example 02

|   | <u>Import from ROW</u><br><u>A to India (US\$)</u> | <u>Import from</u><br><u>Sri Lanka to India (US\$)</u> |
|---|--|--|
| F.O.B. Value of one unit of product "X"         | 700  | 800  |
| Freight & Insurance                             | <u>50</u>  | <u>50</u>  |
| C.I.F.  | <u>750</u>   | <u>850</u>   |
| <b>Import Duty 35%</b>                          | <u>263</u>   | <u>0</u>   |
| <b>Landed cost / cost to the buyer in India</b> | <u>1013</u>  | <u>850</u>   |

Assume quality is same

# However, remember there will be a Cost of Compliance of ROO

- There are two types of cost of compliance
  1. Production and raw material related cost, i.e establishing new production lines, machines and sourcing eligible materials
  2. Administrative related cost, i.e on book keeping, filling system, separate staff to handle COOs and to deal with the issuing authority like wise with DOC



# Preferential ROO and the role of the Department of Commerce (DOC)

- DOC is the competent authority for preferential ROO in Sri Lanka
- Checking product eligibility (HS number is the key)
- Assessing ROO, Production process, Cost sheets, Documentary proofs.
- Site visits and checking product samples, if and when necessary
- Registering the Exporters as a Qualified Exporters under particular Preferential Scheme and given D/COM/R/ number
- Issuing COO Form A, Cancelling, Re-issuance, Duplicate etc,
- Regular two-way consultations with the Exporter
- Answering Verifications
- More than 4000 exporters registered
- Around 500 COOs are issued in an averaged working day
- Electronically COO Issuance is expected from 2015 onwards

- Repeating type issues from the exporters side
  - Incomplete Cost Sheets (wrong calculations, value differences, lack of supporting documents, submission of expired cost sheets etc.)
  - Discrepancies between the COO Form A and the CUSDEC (HS Number, Destination, Country of Origin, non filling of cage 36 of CUSDEC on the Preferential Scheme etc)
  - Submission of irrelevant documents/ altered/ manipulated/ forged documents
  - Authorized signatures, company stamp issues and non coordination between the exporter and the assigned freight forwarding company
  - Late submissions, non eligible submission etc.
- And would like to hear from the exporters to improve our service on the issuance of COOs
- Thank you.