

# Understanding Origin in International Trade

## Introduction

### 1 Definition and Importance of Origin

In international trade, the term **origin** refers to the *economic nationality* of a product — that is, the country where it was produced or underwent its last substantial transformation. Determining a product's origin is fundamental to the application of customs duties, trade policy measures, import and export documentation, and statistical reporting.

The rules governing origin ensure that the benefits or restrictions applied to goods (such as duty preferences, quotas, or trade defence measures) are correctly attributed to the appropriate country.

Origin is therefore a cornerstone of fair and transparent trade, preventing circumvention of customs rules and ensuring the proper functioning of trade agreements.

### 2 Types of Origin

There are **two principal types of origin** used in international trade:

1. **Non-Preferential Origin**, and
2. **Preferential Origin**.

Although both determine a product's economic nationality, they serve different purposes and are based on distinct legal frameworks.

#### 2.1 Non-Preferential Origin

**Non-preferential origin** is used for the application of *general trade policy measures* that are not linked to preferential tariff treatment.

It determines a product's "normal" origin under the World Trade Organization (WTO) framework and the Union Customs Code (UCC).

Non-preferential origin is relevant for:

- The application of **Most Favoured Nation (MFN)** customs duties;
- **Trade defence measures** such as anti-dumping or countervailing duties;
- **Quantitative restrictions**, embargoes, and **import/export licensing**;
- **Marking of origin** ("Made in ...") and **statistical purposes**.

The rules for determining non-preferential origin generally depend on:

- Whether the goods are **wholly obtained** in one country (e.g. minerals extracted, agricultural products harvested); or
- Where more than one country is involved, the country where the product underwent its **last substantial transformation**, defined by a **change in tariff classification, value added**, or **specific processing**.

## 2.2 Preferential Origin

**Preferential origin**, on the other hand, applies specifically in the context of **preferential trade agreements (PTAs)**, **free trade agreements (FTAs)**, or **unilateral preference schemes** such as the EU's Generalised Scheme of Preferences (GSP).

Its primary purpose is to determine whether a product qualifies for **reduced or zero customs duties** when traded between countries that have concluded such agreements.

To benefit from preferential treatment, goods must meet the **rules of origin** set out in the specific agreement. These rules ensure that only products genuinely produced or substantially transformed within the territories of the contracting parties receive preferential tariff benefits.

Typical preferential origin requirements include:

- Being **wholly obtained** in one of the partner countries (e.g., natural products); or
- Being **sufficiently worked or processed** according to the **Product-Specific Rules (PSR)** detailed in the agreement (e.g., change in tariff heading, maximum non-originating material content, or specific manufacturing process).

### 3. Key Distinction Between Preferential and Non-Preferential Origin

| Aspect                      | Non-Preferential Origin  | Preferential Origin   |
|-----------------------------|--|---|
| <b>Purpose</b>              | Determines origin for general trade policy measures (MFN duty, anti-dumping, quotas, etc.) | Determines eligibility for reduced or zero customs duties under trade agreements      |
| <b>Legal Basis</b>          | Union Customs Code (Articles 59-61) and WTO rules  | Preferential trade agreements (e.g. EU-UK TCA, EU-Japan EPA, GSP)                     |
| <b>Rules</b>                | Wholly obtained or last substantial transformation   | Wholly obtained or sufficient working/processing as defined by Product-Specific Rules |
| <b>Proof of Origin</b>      | Certificate of Origin (e.g. Chamber of Commerce certificate)                               | Statement on Origin, EUR.1, or Form A (depending on the agreement)                    |
| <b>Effect on Duty Rate</b>  | Normal (MFN) duty applies  | Preferential (reduced or 0%) duty applies   |
| <b>Scope of Application</b> | Global, applies to all trade   | Limited to specific trade partners under agreements                                   |

### 4. The Role of Origin in Compliance

Understanding the distinction between preferential and non-preferential origin is essential for customs compliance and duty optimisation.

Exporters and importers must apply the correct origin determination method depending on the **trade context**:

- If goods are exported under an FTA, the **preferential origin** rules must be applied;
- If goods are traded outside such an agreement, **non-preferential origin** applies.

Incorrect origin declaration can result in:

- Denial of preferential duty benefits;
- Recovery of duties with interest;
- Administrative penalties or reputational risk.

Establishing clear procedures and robust documentation controls is therefore vital to ensure the **accuracy, traceability, and defensibility** of all origin claims.

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