

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)  
Negotiating Group of Non-Tariff Measures

RULES OF ORIGIN

Statement by Israel

The following statement made at the meeting of the Negotiating Group held on 15 February 1990, is circulated to the members of the Group at the request of the delegation of Israel.

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I. GENERAL

Israel believes that the issue of rules of origin is an important one and we support its inclusion in the Negotiations.

Our experience shows that certain rules of origin may become non-tariff barriers to trade. They may also divert trade and inhibit the flow of investments.

The use of rules of origin as a trade policy measure should be avoided. There is a strong case for the elaboration of a simple and uniform set of rules of origin which will contribute to the expansion of trade among all countries and will avoid undesirable trade diversion to the sole benefit of the importing country employing such rules of origin.

Rules of origin must be adapted to the latest technological developments and in particular they must take into account the special conditions of small countries which manufacture and export technological products which are the result of originally developed technology but at the same time incorporate many imported components.

II. PRINCIPLES

(a) The objective of negotiations on this issue is to achieve to the maximum possible extent, the harmonization of rules of origin. This is to update and to bring rules of origin which cause difficulties to free flow of trade and investments in line with set of rules of origin which are more adapted to realities of the latest technological developments.

By the end of the Uruguay Round, a set of clear principles in this field can be agreed upon. By that date also a substantial work programme can be agreed on.

We support any cooperation with the Customs Cooperation Council (CCC) and in particular the necessary preparatory technical work.

It is important that the commercial and technological aspects should be the guiding aspects in the negotiations.

We believe that it is possible to reach an agreement on guiding principles in this field even without very detailed technical work. It is possible to base our work on existing instruments such as the Kyoto Convention to which Israel is a party.

(b) We believe that any trade instrument which includes certain rules for origin determination should be covered by the discussion. In order to avoid that rules of origin become barriers to trade and in order to harmonize these rules, there is a need for the development of a uniform set of rules of origin and for all purposes: dumping, government procurements and for tariff preferences, etc.

(c) We support universal rules of origin on MFN basis. We are ready to include in the discussion also rules of origin for GSP, and other preferential arrangements, agreements and purposes.

Israel is a party to two major FTAS which cover over two thirds of its trade. These agreements are based on GATT standards and norms and Israel is ready to discuss, in GATT, principles which will also be applicable to preferential rules of origin including those incorporated in Israel's FTAS.

We consider the GATT as the right forum to discuss rules of origin of preferential agreements. These agreements are based on Article XXIV of the GATT and are examined by the CONTRACTING PARTIES in light of its provisions.

In this connection, we should recall that, paragraph 5(b) of Article XXIV requires that an FTA will not result in higher protection vis-à-vis third countries, as compared to the situation before the creation of the FTA.

Certain rules of origin under FTAS may create exactly the situation that GATT tries to avoid by adversely affecting trade with third countries.

Therefore, in order to strengthen the multilateral trading system and to enhance trade liberalization and expansion, preferential rules of origin should also be discussed. The arguments against the discussion of preferential rules of origin disregard the rôle of GATT in setting the basic norms for such agreements in Article XXIV, and the surveillance rôle of GATT in their implementation.

(d) Rules of origin must be simple to comply with. The Kyoto Convention stipulates that the country of origin is the country in which the last substantial transformation has taken place.

The expression of last substantial transformation by a change of tariff headings does not take into account latest technological developments, because in many technological products the component and the final product are classified under the same heading. This criterion ignores the fact that in order to manufacture the final product a lot of work was done and that the imported components were very substantially transformed in the exporting country. Therefore, we strongly support that the country of origin of a product will be the country in which it is substantially transformed into a new and different traded product, having a new name, character or use which is distinct from the material or component from which it was so transformed.

An economic criterion, such as percentage of local content or value added could be required as well. The combination of a flexible technical definition and an economic criterion could provide an answer to the need created by the changing technologies.