



# Non-Preferential Rules of Origin

A High Tech Perspective

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# Cisco's Country of Origin (CO) Approach

# Cisco's CO Approach

- During the manufacturing process, product inputs and processing activities are systemically tracked to inform CO determination for the customer finished product.
- The CO of each serialized product is determined based on substantial transformation analysis. The most critical factors considered in this analysis are:
  - Change in functionality
  - Level of configuration
  - Degree and extent of processing
  - Cost of processing
  - Increase in value attributable to processing
- Cisco evaluates CO at the point of fulfillment based on the final country of manufacture.

# Cisco's CO Approach

- The “substantial transformation” standard may be interpreted differently by national Customs authorities. Technology companies substantial transformation requirements often meet a higher threshold than necessary to support the same origin under multiple jurisdictions
- Determining CO based on import country rules alone is unsustainable, because:
  - Cisco’s products, components and parts are manufactured in a complex and dynamic multi-country supply chain. Finished products are shipped globally to customers and distributors, who take title to and re-distribute our products internationally.
  - Additional CO complexity is added when disassembly or remanufacture occurs, particularly if there has been a prior substantial transformation. National CO rules often lack guidance in these areas.



# The Current CO Determination Environment

# International Rules of Origin

- **The 1974 Kyoto Convention** specified the concept of “substantial transformation” by listing three different methods of determining origin:
  - **Tariff Shift:** Substantial transformation occurs when processing activity causes each of the non-originating materials used in the production of a finished product undergoes an applicable change in tariff classification
  - **Value Added:** Some evidence substantial transformation by calculating the percentage of value added in a particular country
  - **Specific manufacturing or processing activity:** Technical requirements found to cause substantial transformation of the imported constituent article (s)
- Countries may use a combination of the above methods
- Different industries or sectors gravitate towards different methods best suited to their particular production activities

# Impacts of Non-Preferential CO Determination

- Regardless of the method chosen, CO determination can be administratively complex, subjective, costly and time-consuming for global manufacturers.
- CO is subject to Customs and other government agency scrutiny and regulation in both originating and destination countries.
- An imported product's CO has significant implications for:
  - Foreign trade policies
  - Consumer protection and product compliance enforcement
  - Product and package labeling
  - Government procurement
  - Enforcement of trade remedy actions
  - Compilation of trade statistics
  - Supply-chain security

# Rules Of Origin Disparity - Increased Costs & Risk

- If a product ships internationally to customers, CO determination based on export country rules may result in local destination country risk.
- Customs administrations in importing countries may choose to review or delay imports, assess penalties or take other actions that adversely affect trade arrangements
- Overly strict or unclear interpretations of rules of origin – particularly concerning substantial transformation - can result in uncertainty in supply chain and manufacturing decisions (documentation vs. practice)
- Additional costs and complexity are introduced when supply chain regionalization is required to enable local or government sales



# Conclusions

# Harmonized Rules of Origin are a Priority

- Multilateral consensus must be reached so that non-preferential rules of origin do not remain unilateral trade policy in a multilateral trade environment. CO is one of the most significant non-tariff barriers to trade manufacturers face today. Harmonization is foundational to establishing consistent business practices
- A globally agreed upon methodology evidencing substantial transformation that does not depend on country specific case by case determination encourages companies to take advantage of strategic trade programs and reduces costs and operational risk associated with trade compliance

# Methods of Determining Origin

- The method best suited to Technology products is “specific manufacturing or processing activity” because it is adaptive, scalable and considers product advancement beyond material content
- While the “specific manufacturing or processing activity” method may be preferred by the Technology industry, alternative methods may be more appropriate for other major industry sectors and require differentiation.
- The applicability of the Tariff Shift method is limited when the Harmonized Schedule is not sufficiently differentiated at a 6 digit Sub Heading level, unless significant Tariff changes are undertaken.
- The Value Added method is complex, particularly in instances where Bills of Materials are complicated by customer configuration and multiple levels of assembly.