

The European Union's Free Trade Network

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The EU has preferential trade arrangements or bilateral free trade agreements, many of which cover textiles and apparel, with countries worldwide, including in Africa and Asia, and with Mexico and many Central and South American countries. Information on the EU's trading arrangements, by world region, is available at: <http://ec.europa.eu/trade/issues/bilateral/regions/>.

This summary covers the treatment of cotton yarns, fabrics, apparel, and household textile articles under the EU's Association Agreements with Egypt, Jordan, Morocco, and Tunisia. This summary also describes trade preferences that the EU extends to cotton textile and apparel products from certain developing countries under the Generalized System of Preferences (GSP) and under the GSP's Everything But Arms program for Least Developed Countries (LDCs).

EU Association Agreements with Egypt, Jordan, Morocco, and Tunisia

The EU has association agreements with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, and Tunisia. These agreements are part of the Euro-Mediterranean ("Euromed") Partnership, which the countries hope will one day form the basis of a Euromed free trade area. Additional information about the Euromed association agreements is available at: http://ec.europa.eu/trade/issues/bilateral/regions/euromed/aa_en.htm.

The EU countries and Egypt signed an Association Agreement in April 2002, and the agreement took effect in September 2005. The EU countries and Jordan signed an Association Agreement in November 1997 and implemented the agreement in May 2002. The EU countries and Morocco signed an Association Agreement in February 1996 and implemented the agreement in March 2000. The Association Agreement among the EU countries and Tunisia, which is the oldest of the Euromed agreements, was signed in July 1995 and implemented in March 1998. The full text of the EU-Egypt Association Agreement is available at: http://trade.ec.europa.eu/doclib/docs/2005/july/tradoc_124243.pdf. The full text of the EU-Jordan Association Agreement is available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2002:129:0003:0165:EN:PDF>. The full text of the EU-Morocco Association Agreement is available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2000:070:0002:0190:EN:PDF>. The full text of the EU-Tunisia Association Agreement is available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1998:097:0002:0174:EN:PDF>.

Preferential Treatment and Rules of Origin

Each agreement grants preferential tariff treatment to “originating” cotton yarns, fabrics, apparel, and household textile articles. Originating products are wholly obtained, or are produced with materials that “have undergone sufficient working or processing,” in the EU or, as applicable, in Egypt, Jordan, Morocco, or Tunisia. The agreements use a combination of tariff shift rules and value content rules to define the amount of working or processing required to transform non-originating materials into originating products. Such originating products may be imported into the EU free of duty. Duties on most textile and apparel products originating in EU countries and imported into Egypt, Jordan, Morocco, or Tunisia are being phased-out through annual duty reductions.

All four agreements provide for bilateral cumulation, such that, for example, materials from France may be used to meet the origin rule for a good produced in Egypt under the EU-Egypt Association Agreement. Moreover, three of the agreements include rules for “diagonal cumulation.” The EU-Jordan Association Agreement does not provide for diagonal cumulation, but, under the EU-Egypt Association Agreement, diagonal cumulation treats, under specified conditions, materials originating in Algeria, Cyprus, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, or the West bank and the Gaza Strip as materials originating in the EU or Egypt. Under the EU-Morocco Association Agreement, diagonal cumulation may treat materials originating in Algeria or Tunisia as materials originating in EU countries or Morocco, and under the EU-Tunisia Association Agreement, products made with materials originating in Algeria or Morocco may receive the benefit of diagonal cumulation. Therefore, the phrase “association agreement countries” in the following summary of product-specific origin rules means any country from which materials may originate under the applicable association agreement’s rules for bilateral and diagonal cumulation.

To be originating under any of the four agreements, cotton yarns and sewing thread must be spun in association agreement countries from uncarded and uncombed cotton fiber of any origin; yarn made from cotton fiber that was carded or combed outside the association agreement countries is not originating. A predominantly cotton yarn that also includes manmade fibers may include only manmade fibers that were extruded or otherwise produced in association agreement countries from materials not classified in Harmonized Tariff Schedule (HTS) chapters 50 to 63. The origin rules also include a *de minimis* provision that permits predominantly cotton yarns that contain two or more “basic textile materials” (such as cotton, silk, wool, and artificial or synthetic filaments or staple fibers) to include non-qualifying basic textile materials comprising up to 10 percent of the total weight of all basic textile materials in the product. This *de minimis* rule is not available, however, for yarns made of a single basic textile material.

Most cotton fabrics must be knitted or woven in association agreement countries from yarns formed in association agreement countries. Cotton fiber may be of any origin, and may be carded or combed in any country. The *de minimis* rule for basic textile materials is available for fabrics that also contain another basic

textile material. Additionally, for printed woven fabrics, as long as the value of the unprinted fabric does not exceed 47.5 percent of the ex-works price of the finished product, the fabric need only be printed and subjected to two additional preparatory or finishing operations in association agreement countries.

Knit garments comprising two or more cut or knit to shape components may be made from yarn of any origin as long as the garment is cut and sewn or assembled from fabric knitted in association agreement countries, or is knit to shape and assembled in association agreement countries. Cotton knit garments that do not have two or more assembled components, such as socks, are originating under the agreements only if the cotton yarn is also formed in association agreement countries. The *de minimis* rule for basic textile materials applies to garments made from two or more basic textile materials. Additionally, for knit garments with two or more components, there is a *de minimis* rule that permits up to 8 percent of the ex-works price of the product to consist of textile materials, other than linings or interlinings, and other than materials classified in the same HTS heading as the final product, that do not meet the required origin rules. The two *de minimis* rules may not be combined, so non-qualifying content may never exceed 10 percent.

Woven cotton garments and household textile articles (such as sheets, blankets, and tablecloths) generally must be “manufacture[d] from yarn” in association agreement countries. Although the origin rules do not specify which operations constitute manufacture, it appears that the manufacture of woven garments requires weaving fabric, cutting, and sewing or otherwise assembling the garment. One or both *de minimis* rules are generally available for goods of HTS chapters 62 and 63. Additionally, certain embroidered articles, such as women’s and girls’ woven apparel, handkerchiefs, shawls, and bed linens, may also qualify as originating products if they are manufactured in association agreement countries from unembroidered fabric, and the unembroidered fabric does not exceed 40 percent of the ex-works price of the product. Certain printed shawls, scarves and similar articles that are printed in association agreement countries are also subject to a special rule that requires only making up, printing, and finishing, subject to a value content threshold. Household textile articles classified under HTS heading 9404 (such as sleeping bags, pillows, and comforters) may be made from fabric of any origin.

The origin rules for garments and household textile articles are not limited to the component of an article that determines its classification. The requirements apply to all components. But non-textile materials, such as buttons and zippers, may be of any origin. For products classifiable as sets, each article in the set must be originating. Sets may, however, include *de minimis* non-originating content, as long as the value of all non-originating materials does not exceed 15 percent of the ex-works price of the set.

Certification and Recordkeeping

Exporters of originating products usually must apply for an “EUR.1” movement certificate. The certification is valid for four months from its date of issue and must within that time be presented to the government of the importing country in connection with the shipment to which the certificate applies. The agreements also include simplified procedures for certain “approved” exporters.

At the request of the government of the importing country, the government of the exporting country may request documents, conduct verification visits, and take other steps necessary to determine whether claims about the originating status of products are substantiated. The agreements also require participants to keep records to substantiate free trade claims.

GSP and Preferences for LDCs

Since 1971, the EU has granted trade preferences to over 160 countries under the GSP. Beneficiary countries, which include Argentina, Bolivia, Colombia, Guatemala, Honduras, Macao, Mexico, Nigeria, Oman, Panama, Peru, Pakistan, El Salvador, and South Africa, are countries that are not classified by the World Bank as high-income countries and that are not sufficiently diversified in their exports.

Additionally, under the GSP’s Everything But Arms Program, products from approximately 50 LDCs are eligible for enhanced preferential trade treatment. LDCs are designated by the United Nations and include Afghanistan, Bangladesh, Ethiopia, Haiti, Cambodia, Lesotho, Madagascar, Tanzania, Uganda, Yemen, and Zambia. While Myanmar and Belarus are also designated as LDCs, benefits for these countries are currently suspended. A complete list of GSP and LDC beneficiaries and a detailed description of the GSP programs are available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:211:0001:01:EN:HTML>.

Preferential Treatment and Rules of Origin

Under the GSP, originating textile and apparel goods of HTS chapters 50 to 63 from beneficiary countries are subject to reduced duty rates, which are set at 80 percent of the otherwise applicable most-favored nation rates. Notably, while India and China are GSP beneficiaries, India is ineligible for GSP benefits for yarns and fabrics of HTS chapters 50 to 60, and China is ineligible for GSP benefits for such yarns and fabrics, as well as for apparel and household textile articles of HTS chapters 61 to 63. Household textile articles of HTS chapter 94 (such as comforters, sleeping bags, and pillows) that originate in GSP beneficiary countries, including India and China, may enter the EU free of duty.

Under the Everything But Arms program, originating yarns, fabrics, apparel, and household textile articles from LDCs enjoy duty-free access to the EU.

Originating products must be wholly obtained in the EU or a beneficiary country, or must be produced in the EU or a beneficiary country with materials that

originate in the EU or the beneficiary country or that “have undergone sufficient working or processing” according to product-specific rules of origin. Cumulation of materials from more than one beneficiary country generally is not permitted, but cumulation is permitted under the GSP within four regional groups: (1) the Association of South-East Asian Nations (Brunei-Darussalam, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam), (2) the Central American Common Market (Costa Rica, Honduras, Guatemala, Nicaragua, Panama, and El Salvador), (3) the Andean Community (Bolivia, Colombia, Ecuador, Peru, and Venezuela), and (4) the South Asian Association for Regional Cooperation (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka). References to materials or production from a beneficiary country therefore include materials or production in any country within that beneficiary’s regional group.

Under the applicable rules of origin, cotton yarns and sewing thread may be spun in the EU or the beneficiary country from uncarded and uncombed cotton fiber of any origin, but yarn made from cotton fiber that was carded or combed outside the EU or the beneficiary country is not originating. A predominantly cotton yarn that also includes manmade fibers may include only manmade fibers that were extruded or otherwise produced in the EU or the beneficiary country from materials not classified in HTS chapters 50 to 63.

Most cotton fabrics must be knitted or woven in the EU or the beneficiary country from yarns formed in the EU or the beneficiary country. Cotton fiber may be of any origin, regardless where the cotton was carded or combed. Additionally, for printed woven fabrics, as long as the value of the unprinted fabric does not exceed 47.5 percent of the ex works price of the finished product, the fabric need only be printed and subjected to two additional preparatory or finishing operations in the EU or the beneficiary country.

Knit garments comprising two or more cut or knit to shape components may be made from yarn of any origin as long as the garment is knit to shape and assembled, or cut and sewn or assembled from fabric knitted, in the EU or the beneficiary country. For knit to shape garments of only one component, however, the cotton yarn must have been formed in the EU or the beneficiary country.

Woven cotton garments and household textile articles generally must be manufactured from yarn in the EU or the beneficiary country. Certain embroidered articles, such as women’s and girls’ woven apparel, handkerchiefs, shawls, and bed linens, may also qualify as originating products if they are manufactured in the EU or the beneficiary country from unembroidered fabric, and the unembroidered fabric does not exceed 40 percent of the ex-works price of the product. Certain printed shawls, scarves and similar articles that are printed in the EU or the beneficiary country are also subject to a special rule that requires only making up, printing, and finishing, subject to a value content

threshold. Household textile articles classified under HTS heading 9404 may be made from fabric of any origin.

The origin rules for garments and household textile articles are not limited to the component of an article that determines its classification. The rule applies to all components. But non-textile materials, such as buttons and zippers, may be of any origin.

Three *de minimis* rules may also permit limited use of non-originating materials. The origin rules for most yarns and fabrics and for many garments and household textile articles include a *de minimis* provision for products containing two or more basic textile materials. The *de minimis* threshold is 10 percent of the total weight of all basic textile materials in the product. Additionally, many apparel and textile products of HTS chapters 50 to 63 may contain textile materials, other than linings or interlinings, and other than materials classified in the same HTS heading as the final product, that do not meet the applicable origin rules. The limit for such materials is 8 percent of the ex-works price of the product. The two *de minimis* rules may not be combined. For products classifiable as sets, each article in the set must be originating. Sets may, however, include *de minimis* non-originating content, as long as the value of all non-originating materials does not exceed 15 percent of the ex-works price of the set. The full text of the origin rules for GSP products is available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1993R2454:20010701:EN:PDF>.

Certification and Recordkeeping

The applicable origin rules impose certification and recordkeeping requirements for products imported into the EU or beneficiary countries free of duty or at reduced duties. Generally a certification issued by the government of the exporting country, called a Form A, is required. As under several of the EU's bilateral free trade agreements, however, simplified procedures are available for approved exporters. Governments issuing Form A certifications are also tasked with verification of claims of eligibility for preferential treatment, including examination of documents and records, if the importing country requests such a verification.

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