

1. Rules of Origin

Introduction

In light of the future deep and comprehensive free trade areas that will be part of the existing Euro-Mediterranean Association Agreements in 2012-13, it is important that the negotiations take account of the challenges as seen from an Arab-EU private sector perspective. The AE-Network sees significant potential benefits in reforming the current rules of origin between the EU and the MENA region.

The agreements are expected to improve economic governance as well as the ability of the partner countries to attract investments. In the context of these negotiations, the EU will also pay particular attention to measures which can enhance regional economic integration.

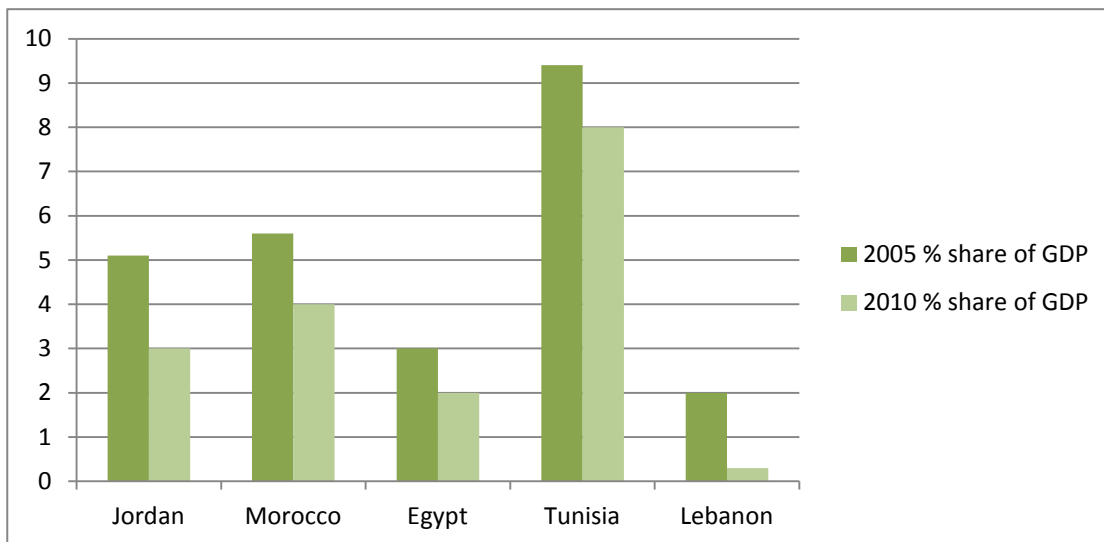
Currently, many industries in the MENA region are suffering because of increased competition from countries such as China and Turkey, but also because of the poor trade relations with the EU. In particular, the complex rules of origin imposed by the EU on South Mediterranean Countries make export to the EU a cumbersome process.

“Our members cannot abide to many importers desire to obtain their fabrics from a 3rd party and be manufactured in our country since the actual strict rules of origin do not allow it. Therefore exports are negatively affected and cannot be maximized under the current circumstances.”

The case of the textile sector

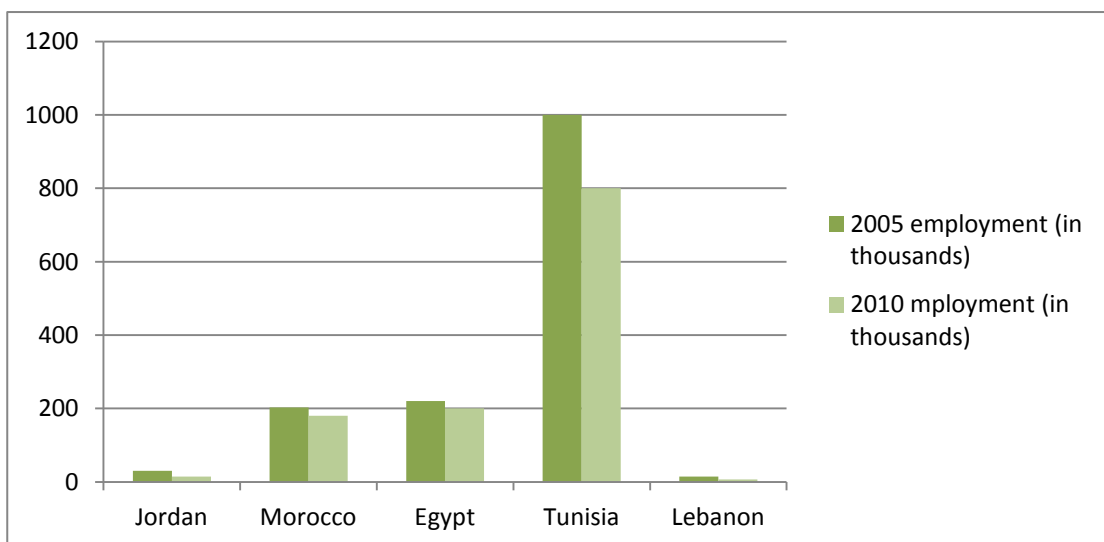
An illustrative case on the unnecessary complexity of the trade agreements are the rules of origin imposed by the EU, especially on the textile industry, which has hampered the sector's full potential for job generation and economic growth in the MENA region.

The textiles and clothing industry plays a major economic role in the textile producing countries of the MENA region and is among the top 3 largest overall sectors in the region. The sector is characterized by being labor intensive and with significant value adding production. The sector's share of GDP is, however, decreasing in the region as is illustrated in the table below.



Source: World Bank

The decrease in the textile sector’s share of GDP can also be seen in a negative trend of the sector’s creation of jobs as illustrated below. This is especially critical in these years where so many young people are entering the job-market in the MENA region.



Source: World Bank

In the case of Egypt, which is home to a fully vertically integrated textile industry, with the entire production process — from the cultivation of cotton to the production of yarns, fabrics and ready-made garments — carried out domestically, the sector is the second largest producing sector after agro-industry and the first in terms of jobs, accounting for 30% of Egyptian employment. The share of jobs is, however, decreasing and the number of textile-related companies registered with the Industrial Development Authority, has fallen from 8000 in 2005 to 6000 in 2010.

Another example is Lebanon, where the textile and clothing sector has been through a difficult period. In the 1990s textiles was the leading export product of the country, but has now fallen to an eighth-place. In the past six years, the sector lost nearly 8,500 jobs in Lebanon. Figures released by the textile union illustrate, that the industry had 568 factories and work-shops in 2010 against 1,239 in 1999. The number of employees has decreased in the same period from 15470 to 6987, while turnover fell from \$ 336 million to \$ 177 million over the period.

Key Challenges

For a product which has been produced in more than one country, it is determined that the origin of the product is in the country where the **last substantial transformation** took place. Whereas ACP countries have been given preferential rules of origin to the EU markets, by requiring only a single transformation in order for exported goods to qualify for preferential market access, MENA countries are required a two-stage transformation (the last two substantial transformations are required to take place in the given country). These strict rules negatively affect local production and exports to the EU cannot be maximized under current circumstances. In order to facilitate trade, the Arab-EU Business Facilitation Network recommends improvements of procedures related to Rules of Origin.

Recommendations to the EU and governments of the MENA region:

- Simplify the rules of origin by allowing same rules as offered to ACPs countries, i.e. decrease the required level of process to single transformation. Therefore, the Pan-Euro-Mediterranean council of ministers' recommendations for the review of rules of origin for South Mediterranean Countries should be activated – especially for textile, household appliance and automobile.
- Improve the Euro-Mediterranean partnership, through targeted programs to upgrade the companies on the one hand and boost exports and foreign investment, particularly by reducing the negative perception of the country risks.
- Increase focus on traditional direct costs of fabrics and labor is necessary, but not sufficient to increase exports. This requires improving the efficiency and reducing the cost of logistics. Important time and cost savings can be realized by improving the sourcing of inputs, customs and ports procedures