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Making ROOs Work for Automotive Supply Chains in RCEP

As the original leader's statement made clear, the 16 parties engaged in Regional Comprehensive Economic Partnership (RCEP) talks are meant to facilitate trade and investment; enhance transparency in trade and investment relations between the participating countries; and facilitate SMEs engagement in global and regional supply chains.

One the most important supply chain segments for nearly all Asian economies is the automotive sector. Direct employment by lead firms delivers hundreds of thousands of jobs to RCEP member countries.

The impact of employment by the sector, however, is significantly wider. Even the smallest firms can be involved in automotive supply chains by delivering parts and components from seat belts, seats and windcreens to nuts, bolts, labels and packaging materials.

The auto sector should be viewed broadly to effectively capture the widest range of inputs that are typically supplied by smaller companies in RCEP into autos, motorbikes, trucks and transport options of the future.

Maintaining growth in the sector is a key element of most RCEP economic plans. Hence, the rules of origin for RCEP must be written to continue to facilitate trade across the region and support future economic development.

ROOs that are too trade restrictive will make it impossible for smaller firms to contribute to automotive supply chains. Onerous paperwork requirements or otherwise challenging

documentation requests will drive firms to drop suppliers in some RCEP economies.

A requirement to host local regional distributional centres also drives up firm costs and can make it less likely that companies will opt to use RCEP benefits in the future.

General ROOs for RCEP

RCEP should follow general best practices for ROOs, including provisions that are:

- Simple, precise, and easy
- Transparent, predictable and stable
- Minimize scope for individual interpretation and discretion
- Difficult to evolve into a non-tariff barrier to trade
- Consistent (as much as possible) across products
- Whenever possible, allow firms to choose multiple options to satisfy origin (RVC or CTC/CTH)
- Full cumulation must be included so that firms can source raw materials, parts and components from any RCEP economy and qualify as "originating" for RCEP preferences
- Inclusion of a de minimus or tolerance threshold (for CTC/CTH or process rule products)

Using these approaches will help ensure that smaller firms that make up the majority of companies throughout RCEP will be able to use the final agreement with fewer challenges.



Certificates of Origin

The ROO criteria are important to firms. But implementation on the ground is equally critical. Certificates of origin (CO) must be simplified and made as user-friendly and accessible to smaller firms as possible.

The presentation of COs must be allowed online, including the use of all online signatures without additional hard copy requirements. This includes, at a minimum, the use of scanned copy COs.

Given relatively efficient transport links between RCEP members, the processing time for COs often exceeds transport time. This means that goods in the automotive sector (and other goods as well) are often stuck in port facilities waiting for CO clearance procedures to be completed.

Such delays add unnecessary costs.

Automotive Sectoral in STRACAP

As a regionally integrated industry, the automotive sector also faces a variety of specific challenges related to regulations in the region. To encourage supply chains in the future, RCEP should create a sectoral working group within the STRACAP process for automotive.

This will allow industry representatives from across the diverse sector to meet regularly with government officials from multiple ministries with control over the sector to coordinate on policy and regulations.

Given many of the striking new innovations on the horizon for the sector, including ever greater automation, the use of Industry 4.0, and the Internet of Things (IoT) technologies, it is becoming increasingly impossible for any single government ministry to effectively understand and facilitate sensible growth in the sector. Hence a coordinated approach is necessary.

RCEP presents a unique platform for such collaboration in Asia and could allow the region to become the global leader for automotive in the future.

Automotive ROOs

As RCEP is using product specific ROOs (PSRs), we recommend the following:

- Whenever possible, the use of both CTC/CTH and RVC rules to allow firms flexibility.
- For RVC rules, RCEP must include, at a minimum, build-up and build-down thresholds.
- These thresholds should be set at a maximum of 50 percent.

To facilitate automotive supply chains, ROOs need to be considered in other tariff headings beyond Chapter 87, including components, electronics, textiles and so forth, as these are often critical to the finished products.

RCEP ROOs are meant to facilitate and encourage trade within RCEP economies. These should be balanced with restrictions on local or domestic level content requirements that often conflict with the intent of RCEP's encouragement of regional integration.

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