Country of Origin Rules: CAROTAR, 2020

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Why in News

The **Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020** (CAROTAR, 2020), will come into force from 21st September 2020. It was notified on 21st August 2020.

> The importers and other stakeholders were given a 30-day period to familiarise themselves with new provisions.

Key Points

- **Stricter Rules:**
  Importers will have to ensure that imported goods meet the prescribed **'rules of origin'** provisions for availing concessional rate of customs duty under **Free Trade Agreements** (FTAs).
    - Importers have to prove that imported products have undergone value addition of at least 35% in the countries of origin.
    - Earlier, merely a **country of origin** certificate, issued by a notified agency in the country of export was sufficient to avail the benefits of FTAs.
    - This was exploited in many cases, i.e. the **FTA partner countries have been claiming to have produced the goods in question without having the necessary technological capacity** for the required value addition.

- **Reason for Stricter Rule:**
    - The investigation into FTA imports in the last few years has revealed that the **rules of origin, under respective FTAs, were not being followed** in the true spirit.
    - Customs officials suspect that China diverts its supplies to India through **Association of Southeast Asian Nations** (ASEAN) nations, abusing rules of origin, to illegally take advantage of **duty-free market access under FTA.**
        - **Major imports to India** come from five ASEAN countries — Indonesia, Malaysia, Thailand, Singapore and Vietnam.
        - The ASEAN FTA allows imports of most items at zero or concessional basic customs duty from the 10-nation bloc.
    - Given the latest **border standoff between India and China**, the diversion may surge.
- **Impact:**
    - The new rules will make the importer to correctly ascertain the country of origin, properly claim the concessional duty and assist customs authorities in smooth clearance of legitimate imports under FTAs.
    - The domestic industry will be protected from misuse of FTAs.

Free Trade Agreement

- It is an **arrangement between two or more countries** or **trading blocs** that primarily agree to **reduce or eliminate customs tariff and non tariff barriers** on substantial trade between them.
- It covers **trade in goods** (such as agricultural or industrial products) or **trade in services** (such as banking, construction, trading etc.).

    It also **covers other areas such as intellectual property rights** (IPRs), **investment, government procurement** and **competition policy** etc.
- India has inked FTAs with several countries, including **Japan, South Korea, Sri Lanka and ASEAN members.**
- **Benefit:**
    - By eliminating tariffs and some non-tariff barriers, FTA partners get easier market access into one another's countries.
    - Exporters prefer FTAs to multilateral trade liberalization because they get preferential treatment over non-FTA member country competitors.

Source: TH