



Customs administration

Application of CEFTA decision 3/2015 - full cumulation and duty drawback

In trade between the CEFTA Parties (countries participating in the Stabilization and Association Process with the European Union and the Republic of Moldova) and the EU, the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin ("Official Gazette of Montenegro-International Treaties, no. 7/12) represents basis for the application of preferential origin. The PEM Convention which is applicable today provides for bilateral and diagonal cumulation, while full cumulation is possible between certain contracting parties in the form of derogations from the general rules of cumulation.

Due to the lengthy process of revision of the Convention, which is in progress, to allow full cumulation and duty drawback to be applied, the CEFTA Joint Committee adopted Decision 3/2015 amending the Protocol on the Origin of the CEFTA Agreement, which introduced the possibility of duty drawbacks and the application of full cumulation in trade between CEFTA parties. For the sake of transparency, in the EU OJ 149/2019 and at the same time was published Decision no. 2/2017 of the Joint Committee of the Convention notifying the Contracting Parties to the PEM Convention that, as of 1 July 2019, a derogation from the cumulation rules prescribed by the PEM Convention shall apply in trade between the CEFTA Parties.

This means that the derogation only applies to preferential trade between CEFTA parties and does not affect trade with other Contracting Parties to the PEM Convention, i.e. goods acquiring the origin with full cumulation and/or duty drawback in the CEFTA

Party are goods originating exclusively for export to the other CEFTA Party and not to the other Contracting Parties to the PEM Convention. Also, such goods cannot be used as originating material in the manufacture of products for export to other non-CEFTA countries.

How a buyer of goods in the CEFTA party does know that they are originating only for export to the CEFTA side?

When exporting a final product that has acquired Montenegrin preferential origin using full cumulation and/or duty drawback, then the exporter is obliged to indicate in box 7 "notes" in EUR.1 Movement certificate or in the declaration of origin:

"According to the CEFTA Decision 3/2015".

The drawback institute between CEFTA parties can be used not only in the application of full cumulation but also in situations where goods are exported from Montenegro to another CEFTA party and previously produced under the inward processing customs procedure. This means that non-originating materials used in the manufacture of the final product, for which an exporter from Montenegro requires the issue of proof of origin, will not be charged customs duty. However, if such a product were to be exported to other contracting parties of the PEM Convention (e.g. EU), regardless of the fact that Montenegro has a free trade agreement with the EU, the customs duty would be collected on non-originating materials used in production, prior to issuing proof of origin.

The application of these new institutes to the rules of origin is a



significant facilitation to Montenegrin businesses in gaining Montenegrin preferential origin. Namely, by applying full cumulation of goods produced in Montenegro, compared to the application of diagonal cumulation of origin, it will be easier to acquire Montenegrin preferential origin. As it is known, bilateral and diagonal

cumulation is applied to originating materials, i.e. origin of materials is being cumulated. Unlike the two types of cumulation, full cumulation is applied to the production process, i.e. production processes are cumulated, where a group of countries forms a single cumulation zone (in this case the CEFTA parties). This means that, in order to obtain preferential origin, all manufacturing operations carried out in the CEFTA zone are taken into account. The advantage is that a product manufactured in one of the countries in the CEFTA zone is not required to acquire origin before being exported to another country in that zone.

Additionally, the direct financial benefits are also significant since businesses will no longer have to pay customs debt for non-originating goods that have been involved in the manufacturing of products acquiring the Montenegrin preferential origin.

The application of full cumulation in practice would be implemented as follows:

In Albania are imported non-originating candles of heading 3406, valued at 2.5 €, which are decorated and packed in 100-pcs boxes. Decorated and packed candles, valued at 10 €, are exported to Montenegro under the same heading, where labels produced in Montenegro are attached and packed in 10 pcs boxes. This final (finished) product, valued at 15 €, is exported to Bosnia and Herzegovina. The prescribed rule for products in Chapter 34 is: "Manufacture in which all the materials used are classified within a heading other than that of the product. However, materials of the same heading as the product may be used, provided that their value does not exceed 20% of the ex-works price of the product." As the final product is obtained by working or processing which is above the minimum procedures (since the labels are produced in Montenegro),

The prescribed value condition from the List of working or processing, i.e. the share of non-originating materials, which should not exceed 20% of the ex-works price of the finished product, is further evaluated. Due to the above, the final product acquires Montenegrin preferential origin since the share of non-originating materials in the price of the finished product is 16.6%.

Full cumulation model

