

## **PANAMA-SINGAPORE FREE TRADE AGREEMENT GUIDE TO RULES OF ORIGIN**

Singapore and Panama signed the Panama-Singapore Free Trade Agreement (PSFTA) on 1 March 2006. This Agreement takes effect on 24 July 2006.

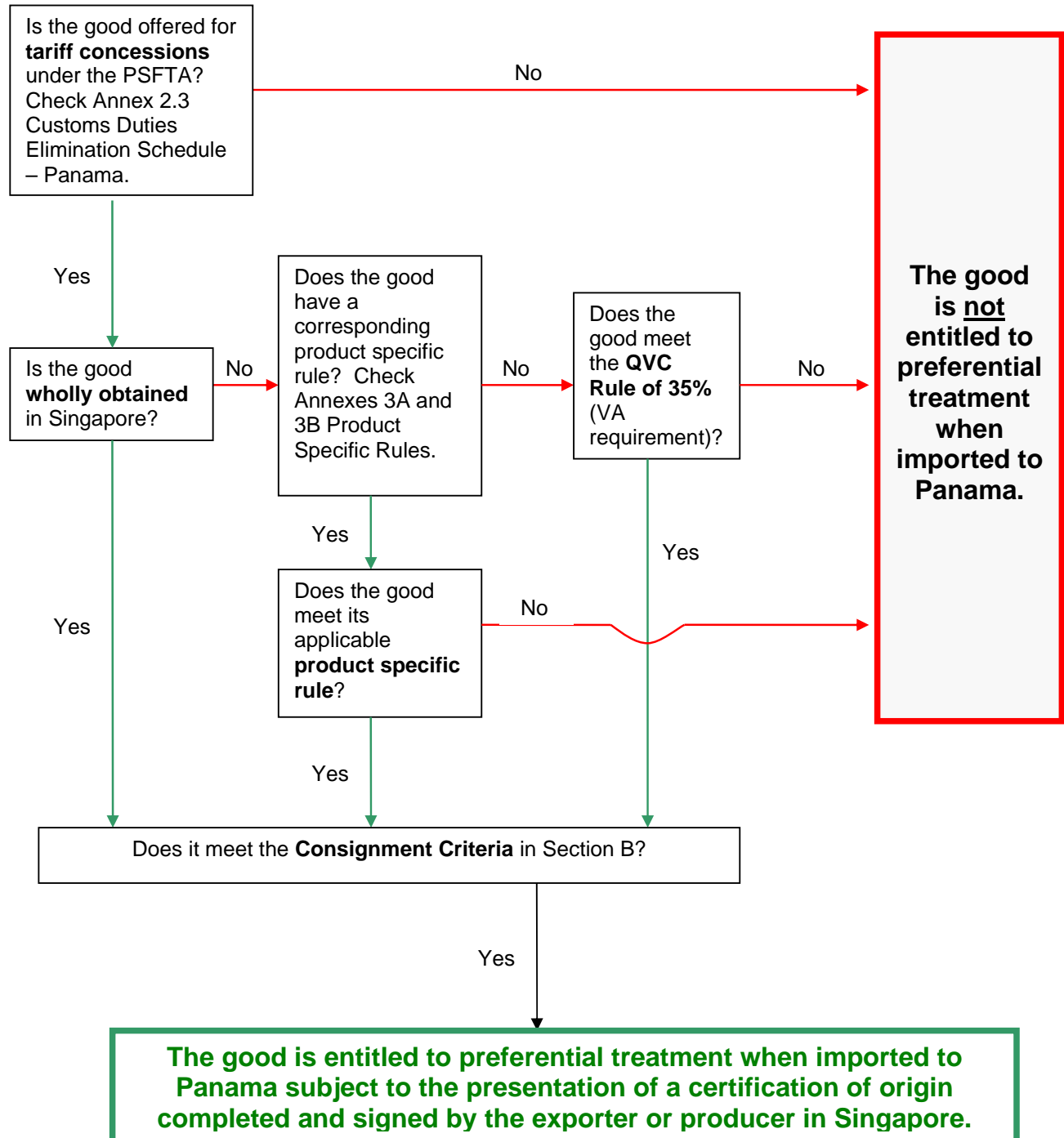
Under the PSFTA, Panama offers tariff concessions on approximately 97% of Panama's HS lines. The tariff concessions can be found in Annex 2.3 to the PSFTA.

Tariff preference for Singapore imports to Panama is only given to goods originating in Singapore. Goods imported into Singapore for re-export to Panama are not entitled to the tariff benefits. Goods manufactured in Singapore are not automatically considered originating. Instead, such goods have to satisfy the PSFTA rules of origin to be considered originating.

The PSFTA rules of origin take into account where the goods are produced and what materials are used in their production. This ensures that only goods originating in Singapore and traded between Singapore and Panama are entitled to preferential tariff treatment. The origin requirement also applies to goods imported into Singapore from Panama.

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**FLOWCHART FOR DETERMINING IF A GOOD CAN CLAIM  
PREFERENTIAL TREATMENT UNDER  
THE PANAMA-SINGAPORE FREE TRADE AGREEMENT (PSFTA)**



## 1. WHICH PRODUCTS WILL BE CONSIDERED SINGAPORE-ORIGINATING UNDER PSFTA?

Singapore and Panama are treated as a single production area. This means that any good or material that originates in Panama is deemed to have originated in Singapore, and vice versa. Similarly, production that is performed in Panama is considered to be done in Singapore. This is known as **bilateral accumulation**.

The Agreement specifies **three ways** in which goods can be considered originating.

### (I) Goods Wholly Obtained in Singapore

The following is a list of products that are considered to be 'wholly obtained' in Singapore. These products are automatically accepted as originating in Singapore.

- (a) Mineral goods extracted from Singapore's soil, waters, seabed, or beneath the seabed;
- (b) Plants and plant products harvested in Singapore;
- (c) Live animals born and raised in Singapore;
- (d) Goods obtained from animals referred to in sub-paragraph (c);
- (e) Goods obtained from hunting, trapping, fishing, or aquaculture conducted in Singapore;
- (f) Goods (fish, shellfish, and other marine life) taken from outside Singapore's Economic Exclusive Zone as defined in the *United Nations Convention on the Law of the Sea* by vessels registered, licensed or recorded with Singapore, and entitled to fly the Singapore flag;
- (g) Goods produced and/or made on board factory ship exclusively from products referred to in sub-paragraph (f), provided such factory ship is registered, licensed or recorded with Singapore, and entitled to fly the Singapore flag;
- (h) Goods taken by Singapore, or a person of Singapore, from the seabed or beneath the seabed outside Singapore's Economic Exclusive Zone, provided that Singapore has rights as defined in the *United Nations Convention on the Law of the Sea* to exploit such seabed;
- (i) Waste and scrap derived from production in Singapore;
- (j) Waste and scrap derived from used goods collected in Singapore, provided that such goods are fit only for the recovery of raw materials; or

- (k) Recovered goods derived in Singapore from used goods.

## (II) Goods Entirely Manufactured in Singapore

These are products which are produced in Singapore, exclusively from goods referred to in paragraphs (I)(a)-(k), or from their derivatives, at any stage of production.

## (III) Goods Sufficiently Produced in Singapore

Manufactured goods that contain non-originating materials will be considered originating if the last process of manufacture is performed in Singapore and such materials undergo **sufficient production** as determined by either of the following criteria:

- a) Product Specific Rules as listed in Annexes 3A and 3B. The product specific rules are generally expressed as one of the following forms:
- i. Change in Chapter Heading (CC)<sup>1</sup> only;
  - ii. Change in Tariff Heading (CTH)<sup>2</sup> only;
  - iii. Change in Tariff Subheading (CTSH)<sup>3</sup> only; or
  - iv. A Process Rule<sup>4</sup>;

Originating materials are exempted from having to meet such Product Specific Rules.

### OR WHERE THERE IS NO PRODUCT-SPECIFIC RULE,

- b) The value added to the good in Singapore, namely the *qualifying value content* is at least **35%** based on the following formula:

$$QVC = \frac{FOB - NQM}{FOB} \times 100$$

<sup>1</sup> This will be reflected as, "A change to chapter XX/heading XX.XX/subheading XXXX.XX from any other *chapter*," and effectively means that the *first two digits* of the HS codes for the non-originating material and the final good must be *different*.

<sup>2</sup> This will be reflected as, "A change to chapter XX/heading XX.XX/subheading XXXX.XX from any other *heading*," and effectively means that the *first four digits* of the HS codes for the non-originating material and the final good must be *different*.

<sup>3</sup> This will be reflected as, "A change to chapter XX/heading XX.XX/subheading XXXX.XX from any other *subheading*," and effectively means that the *first six digits* of the HS codes for the non-originating material and the final good must be *different*.

<sup>4</sup> This includes the Chemical Reaction Rule, whereby the non-originating material must undergo a chemical reaction in Singapore and result in a new molecular structure, and the Refining Process Rule, whereby the non-originating material undergoes neutralization, de-acidification, decolourising, or deodorising.

where

QVC is the qualifying value content;  
 FOB is the Free-On-Board value, which refers to the value of a good payable by the buyer to the seller, regardless of the mode of shipment, not including any internal excise taxes, reduced, exempted, or repaid when the good is exported; and

NQM is the value of non-qualifying value of materials used by the producer in the production of the good.

(NB: the value of the material would refer to its cost, insurance, and freight (CIF) value.)

**De Minimis** – Goods, which have non-originating materials that are not able to meet their relevant CC/CTH/CTSH rules, may still be able to enjoy preferences under the PSFTA, if the value of such non-originating materials does not exceed 10% of the FOB value of the good.<sup>5</sup>

**Production Accumulation** – Goods are often produced in different stages, and not necessarily by the same manufacturer or at the same location on country. The PSFTA allows all the different stages of production performed in Singapore and Panama (including those performed by different manufacturers to be accumulated.)

#### A. Illustration for Change in Tariff Heading (CTH) Rule

A local manufacturer produces black pepper sauce in Singapore and ships the product to Panama. The HS sub-heading for black pepper sauce is 2103.90. *Assuming*, the rule of origin for products under this HS heading states that all foreign materials must undergo a tariff change at the 4-digit HS heading level, i.e. “A change to heading 21.03 from any other heading.” The list below sets out the materials used in the production of a bottle of black pepper sauce.

Description of Raw Materials/ Others	HS Heading	Origin	Value
a. Oyster Juice	16.03	Japan	0.25
b. Fermented Vinegar	22.09	Malaysia	0.20
c. Pepper	20.02	Malaysia	0.25
d. Sugar	17.01	Singapore	0.07
e. Salt	25.01	Singapore	0.04
f. Overheads and Labour	N.A.	N.A.	0.04
g. Profit	N.A.	N.A.	0.15
<b>FOB (a + b + c + d + e + f + g)</b>	<b>N.A.</b>	<b>N.A.</b>	<b>1.00</b>

<sup>5</sup> For goods in HS Chapters 50 through 63, the percentage refers to the weight of fibres or yarns with respect to the weight of the good being produced. This exemption does not apply to the production of goods as set out in Paragraph 3 of Article 3.5.

The first 4-digits of the HS code of all the foreign materials differ from the first 4 digits of the HS code of the black pepper sauce (HS 21.03). Hence the black pepper sauce meets the (assumed) applicable rule of origin and is considered to be of Singapore origin. The black pepper sauce will therefore enjoy preferential treatment under the PSFTA.<sup>6</sup>

#### B. Illustration of Qualifying Value Content Rule

If there is no product specific rule for black pepper sauce in the PSFTA, the good will be subject to the QVC rule. Using the above illustration, since the FOB = 1.00 and the NQM = 0.70, the QVC is only 30%. The black pepper sauce would therefore not meet the (assumed) rules of origin, and will therefore not be able to enjoy preferential treatment under the PSFTA.<sup>7</sup>

### **3. CAN SPARE PARTS, TOOLS, FUNGIBLE GOODS AND MATERIALS, PACKAGING AND PACKING MATERIALS AND CONTAINERS BE CONSIDERED AS “QUALIFYING VALUE CONTENT”?**

#### **(I) Fungible Goods or Materials**

Fungible goods or materials refer to goods or materials that are interchangeable for commercial purposes and whose properties are essentially identical. The PSFTA provides that such goods may be physically segregated according to their origin, or segregated in records according to any of the following inventory management methods for purposes of determining origin of such goods:

- (i) Averaging;
- (ii) Last-In, First-Out; or
- (iii) First-In, First-Out.

However, the exporter must continue the same inventory management method which it has selected for the particular fungible goods or materials throughout the fiscal year.

#### Illustration of (I) Fungible Materials

A local manufacturer who produces black pepper sauce uses soy sauce in his production. The soy sauce is sourced from local and foreign manufacturers. Since the properties of the soy sauce are identical, there can be 2 possible scenarios for storage:

- a. The soy sauce may be physically segregated in the storage room and origin remains intact; or

<sup>6</sup> The applicable rule of origin for black pepper sauce (HS 2103.90) in the PSFTA is actually a CTSH rule.

<sup>7</sup> The applicable rule of origin for black pepper sauce (HS 2103.90) in the PSFTA is actually a CTSH rule.

b. The soy sauce of different origin may be co-mingled and the determination of origin is dependent on the generally accepted accounting practices adopted by the manufacturer. The following example illustrates how the origin of soy sauce is determined using the first-in, first out method of material management:

<b>Date of purchase of soy sauce</b>	<b>Origin</b>	<b>Quantity</b>
a. 1 Jan 2003	Local	100 litres
b. 1 Apr 2003	Foreign	500 litres
c. 1 Jul 2003	Foreign	250 litres
d. 1 Sep 2003	Local	300 litres

The first 100 litres of soy sauce used in production will be considered as local origin, the subsequent 750 litres (b+c) will be considered as non-originating materials, the following 300 litres used in production will be considered as local origin and so on.

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## **(II) Accessories, Spare Parts and Tools**

A good's standard accessories, spare parts or tools delivered along with it shall be taken into account as originating or non-originating, as the case may be, in calculating the local value content of the good.

## **(III) Packaging Materials and Containers for Retail Sale**

For the purpose of determining the local value content, the value of packaging materials and containers will be taken into account in the calculations, and considered as originating or non-originating as the case may be.

## **(IV) Packing Materials and Containers for Shipment**

Materials and containers in which a good is packed for shipment are disregarded in the determination of whether all the non-originating materials used in the production of the good fulfils the local value content requirement.

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Illustration of (II) Accessories, Spare Parts and Tools, (II) Packaging Materials and Containers for Retail Sale, and (III) Packing Materials and Containers for Shipment

A local manufacturer produces laptops and exports them to Panama. The laptop is partly manufactured in Singapore and meets the value criterion to be considered originating. However,

Laptop in Box = \$1000 (Appraised Value)

- Laptop = \$500 (originating)
- Battery, Power cord & Laptop bag (Accessories, Spare parts and Tools) = \$200 (imported)
- Bubble wrap, Styrofoam Packaging, Cupboard Box (Packaging Materials and Containers for Retail Sale) = \$50 (imported)
- Wooden Crates (Packaging Materials and Containers for Shipment) = \$100 (imported)

$$\begin{aligned}
 \text{QVC} &= \frac{\text{FOB} - \text{NQM}}{\text{FOB}} \times 100\% \\
 &= \frac{\$1000 - (\$200 + \$50)}{\$1000} \times 100\% \\
 &= 75\% > 35\%
 \end{aligned}$$

→ Therefore, the laptop in box is considered originating and would qualify for the tariff concession offered by Panama

(NB: the imported wooden crates used for shipping purposes are disregarded in the determination of QVC)

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#### 4. TRANSPORTATION CRITERIA

Originating goods transported directly between Singapore and the Panama retain their originating status. However, if an originating good transits through a third country and were not traded or used in that third country, it may retain its originating status if it does not undergo any subsequent production outside the territories of Singapore and the Panama. The good is only allowed to undergo operations meant for unloading, reloading, or to preserve it in good condition. Invoices and bills should show that the particular good is shipped from Singapore and the final destination is Panama.



## **5. WHAT IS THE CERTIFICATION REQUIREMENT FOR ORIGINATING PRODUCTS?**

For Singapore-made products exported to Panama claiming tariff concession, the importer in Panama must present a certification of origin that has been completed and signed by the exporter/producer in Singapore when requested by the Panamanian customs authority. This certification, which is applicable for a single importation of the good, will be valid for 12 months from the date it was signed. This certification of origin must include:

- i. Name and address of the producer/exporter;
- ii. Name and address of the importer;
- iii. Description of goods;
- iv. HS Tariff Classification number, i.e. HS code;
- v. Preference statement declaring that the good meets the PSFTA rules of origin; and
- vi. Authorised signature of the exporter/producer.

In addition, the Panamanian customs authority will require the Panamanian importer to make a written declaration that the good qualifies as originating, and may call upon any other documentation relating to the importation of the good.

However, the certification of origin is not required in two situations:

- i. Where the aggregate customs value of a consignment of a good does not exceed USD \$1,000 or its equivalent amount; or
- ii. Where the importing country has waived the requirement for a certification of origin.

## **6. ARE ADVANCE RULINGS ISSUED?**

The Panamanian importer or Singaporean exporter may request from the Panamanian customs authority a written advance ruling on the tariff classification of the good. A detailed description and reasons for the ruling must be included in this request. This ruling will be issued within 120 days after obtaining all necessary information. The advance ruling shall be valid at least 2 years from its date of issuance.

## **8. HOW IS AN ORIGIN CLAIM VERIFIED?**

Where the Panamanian customs authority has reasonable grounds to believe that the products are not originating, it can:

- (a) Request for information from the importer;
- (b) Make written requests for information to an exporter or a producer in Singapore through Singapore Customs; or

(c) Conduct visits to the premises of an exporter or a producer in Singapore, with their consent and in accordance with any procedures that Singapore and Panama have agreed to adopt.

A written determination on whether the good is considered originating will be provided to the Singapore exporter or producer.

## **9. Useful Web Link and Contact Point**

For general information on the Panama-Singapore FTA, please refer to –  
<http://www.fta.gov.sg>

ROO Guides of other concluded FTAs can be found here.

All queries can be sent to the following email address:  
[mti\\_fta@mti.gov.sg](mailto:mti_fta@mti.gov.sg)

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