

# Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention): Entry into force of the revised rules of origin on 1 January 2025

## Information note for the attention of the business community

Date: 20 September 2024 / 25 October 2024

### 1 Background

As announced in the information note of 20 December 2023, the Joint Committee of the PEM Convention adopted the revised rules of origin of the PEM Convention on 7 December 2023 and determined that they will enter into force on 1 January 2025. The new and modernised rules of origin are more flexible and business-friendly.

This amendment to the rules of origin affects the 24 contracting parties to the PEM Convention: Switzerland, the European Union (EU), Iceland, Liechtenstein, Norway, the Faroe Islands, Turkey, Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, Lebanon, the West Bank and Gaza Strip, Georgia, Moldova, Ukraine, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia and Kosovo.

### 2 Implementation of the revised PEM Convention

In order for the revised rules of origin of the PEM Convention to apply, the free trade agreements in the PEM zone must contain a so-called "dynamic reference" to the PEM Convention. The EFTA Convention and the free trade agreements of Switzerland/EFTA with the EU, Albania, Bosnia and Herzegovina, Georgia, Montenegro, North Macedonia, Serbia and Turkey already provide for a dynamic reference to the PEM Convention. The revised rules of the PEM Convention will automatically apply to these agreements from 1 January 2025.

Numerous free trade agreements in the PEM zone do not yet contain a dynamic reference to the PEM Convention. Among the free trade agreements of Switzerland/EFTA, this applies to the agreements with Egypt, Israel, Jordan, Lebanon, Gaza Strip and West Bank, Morocco, Tunisia, Ukraine and the Faroe Islands. Due to the length of the legislative procedures in the contracting parties, it is becoming apparent that not all free trade agreements within the PEM zone can be amended in time for the end of 2024. **This means that there will still be two sets of rules (i.e. the current or 'old' PEM Agreement and the revised rules) in the PEM zone after 1 January 2025.** As diagonal cumulation in the PEM zone is based on the principle of identical rules of origin, this would have negative consequences for existing cumulation options and supply chains.

#### 2.1 Transitional provisions envisaged

In order to avert such a situation, the contracting parties have agreed in principle on the following procedure from 1 January 2025:

- The revised PEM Convention enters into force as planned on 1 January 2025 and replaces the [transitional rules](#).
- The rules of origin of the old PEM Convention can continue to be applied in parallel until 31 December 2025. This gives the contracting parties sufficient time to adapt their free trade agreements accordingly.

- In order to simplify the application of the revised rules of origin, the revised PEM Convention now also introduces cross-border permeability, which already applies at national level<sup>1</sup> (in the agricultural sector only for goods of HS Chapters 1 and 3 and processed fishery products of HS Chapter 16). Exporters who already apply the revised rules of origin can therefore cumulate even if their suppliers still apply the old rules of origin. Cumulation in the other direction (i.e. if the supplier applies the revised rules and the exporters still apply the old rules) is not possible.
- To ensure that a distinction can be made in terms of permeability as to whether a material has acquired origin under the old or revised rules, exporters who apply the revised rules must mark the proof of origin accordingly with 'REVISED RULES' until 31 December 2025 (exclusively in English, in box 7 of the movement certificate EUR.1 or at the end of the text of the origin declaration).

The Parties have also agreed that proofs of origin issued before 1 January 2025 and submitted after that date within their period of validity will be accepted for goods that are either in transit or under a special procedure under customs control on 1 January 2025.

## 2.2 Further changes

Furthermore, electronically validated movement certificates are to be accepted by customs administrations from 1 January 2025. Work is underway to update the product-specific rules (so-called list rules) of the revised PEM Convention to the HS status 2022. This adjustment will take place at a later date.

## 2.3 Situation from 1 January 2025

**In order for these measures to be implemented under the revised PEM Convention as of 1 January 2025, the Joint Committee of the PEM Convention plans to adopt the corresponding resolutions in December 2024.** However, unanimity is required for their adoption. If, contrary to expectations, the revised PEM Convention is not adopted unanimously, it would enter into force on 1 January 2025 as planned, but without the transitional provisions mentioned above.

This means that the legal framework for part of the preferential trade from 1 January 2025 will only be created a few weeks before its implementation. As soon as new information is available, economic operators will be informed in an appropriate form so that they can prepare as well as possible.

An additional uncertainty is that we do not know at this stage whether all contracting parties will have ratified these resolutions after their adoption in December 2024 and will already apply the transitional provisions as of 1 January 2025. Delays in ratification (i.e. internal approval of the above-mentioned decisions) and implementation in some contracting parties cannot be ruled out. In order for the decisions to be applied in bilateral trade under a free trade agreement, all parties to the corresponding free trade agreement must have ratified them. With regard to the Switzerland-EU free trade agreement, it is currently assumed that the parties will be able to complete ratification in good time and implement the above-mentioned resolutions by 1 January 2025.

<b>Current status: What will change?</b>
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<sup>1</sup> For details on permeability, see [here](#), section 3.3.3.

Subject to the adoption of the above decisions by the Joint Committee of the PEM Convention in December 2024, the situation will be as follows:

**a. From 01.01.2025 to 31.12.2025:**

**As today, two sets of rules (i.e. the old PEM Convention and the revised rules (today's transitional rules)) will apply within the PEM zone. In trade, the situation will have to be taken into account depending on the partner or free trade agreement (FTA):**

**Scenario 1: FTA with dynamic reference and transitional provisions:**

- a. Optional application of the old or revised rules b
- . Diagonal cumulation possible under the revised rules
- c. Diagonal cumulation possible under the old rules
- d. Permeability

**Scenario 2: FTA with dynamic reference but without transitional provisions:**

- a. Application of the revised rules b
- . Diagonal cumulation is possible under the revised rules

**Scenario 3: FTA without dynamic reference and without transitional provisions:**

- a. Application of the old rules
- b. Diagonal cumulation is possible under the old rules

As soon as it is clear which scenario will apply to which free trade agreement, a matrix will be published.

**b. From 1 January 2026:**

**From 1 January 2026, only the revised rules will apply.** If some contracting parties have not yet included the dynamic reference to the PEM Convention in their free trade agreements by this date, cumulation with these partners will be interrupted.

### **3 Content of the revised rules of the PEM Convention**

The revised rules entail administrative simplifications for companies, in particular through the cancellation of the EUR-MED proof of origin. Thus, under the revised rules, only one type of proof of origin will be retained in trade with all contracting parties (movement certificate EUR.1 or declaration of origin).

They provide for the possibility of calculating the ex-works price and the value of non-originating materials on the basis of average values for a tax year. The value tolerance of non-originating materials that can be used in the manufacture of a product has been increased from 10 to 15 per cent of the ex-works price for industrial products and from 10 to 15 per cent of the net weight for agricultural products. In addition, the revised agreement extends the accounting segregation to sugar, which simplifies the storage of this product. Furthermore, the direct transport rule has been replaced by the no-change rule in order to take account of the development of international logistics. The list rules for industrial products have also been generally simplified. When using the value criterion, the permissible proportion of non-originating materials is increased from 40 to 50 per cent of the ex-works price of the product. Processes involving cell cultures and industrial fermentation have been added to the originating working or processing. For textiles, the originating status can now be obtained on the basis of a wider range of processing steps. For agricultural products, the permitted proportion of non-originating materials is no longer measured by value but by weight.

In the case of sugar, a third-country sugar content of 40 per cent by weight is now permitted in a product instead of the previous 30 per cent based on the ex-works price of the end product. The only exceptions are sugar confectionery (HS 1704) and chocolate (HS 1806). Here, the permitted sugar content (40 per cent by weight or 30 per cent based on the ex-works price of the end product) remains unchanged.

#### **4 Next steps**

The FOCA and SECO will continue to provide information on the latest developments in the coming months by means of information memos and circulars.

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