

Background paper on Build – up and Build down formulae to calculate Regional Value Content (RVC) in context of RCEP negotiations

- RCEP is a comprehensive Free Trade Agreement being negotiated between the 10 ASEAN Member States (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) and ASEAN’s 6 FTA partner countries (Australia, China, **India**, Japan, Korea and New Zealand).
- Sub working Group on Rules of origin (SWGROO) is negotiating ROO for the RCEP. So far it has held its 6th meeting, last one was held in Kyoto, Japan in June 2015.
- Apart from various other issues such as Full cumulation , individual PSRs for each HS line at 6 digit HS classification and Self-Certification etc. SW Group is also negotiating ROO/OCO text.
- One of the issues under discussions in ROO/OCP text is adoption of Build –up or Build-down formulae to calculate Regional value Content (RVC).
- Under RCEP negotiations, till now, RVC being discussed is 40% i.e. in order to attain status of originating material, a non-originating material must achieve a minimum of 40% value addition/RVC in a particular participating country.
- **The Value addition/RVC can be calculated in any of the two ways:**

I) Build –down/ In- direct method

$$RVC = \frac{\text{FOB value} - \text{Value of Non-Originating material}}{\text{FOB value}} \times 100 \geq 40$$

Here RVC= Regional value content
 FOB= Free on Board value

II) Build down/ Direct formula

$$\frac{\text{Domestic material cost} + \text{labour cost} + \text{Overhead cost} + \text{Profit} + \text{Other cost}}{\text{FOB value}} \times 100 \geq 40$$

Where:

- a) Domestic Material Cost is the value of originating materials, parts or produce that are acquired or self- produced by the producer in the production of the good

- b) Labour Cost includes wages, remuneration and other employee benefits;
- c) Overhead Cost is the total overhead expense;
- d) Other Costs are the costs incurred in placing the good in the ship or other means of transport for export including, but not limited to, domestic transport costs, storage and ware housing, port handling, brokerage fees and service charges;
- In our previous FTA, we had used both these formulae. In case of India- ASEAN and India-Japan, both Build-up and Build down formulae are included in ROO text and an exporter have an option to choose any one of the formula out of the two to calculate the value addition/RVC. In case of India-Korea, only Build-down formula has been prescribed to calculated VA/RVC

What is expected of stakeholders?

Stakeholders are requested to give their inputs/comments as to which formula should be preferred for India during the RCEP negotiations, along with detailed reasons for the same.

It needs to be borne in mind that final agreement on the formulae would be a result of the negotiations only.