Relaxing the Rules of Origin for Jordanian Industries

A Necessary Step Towards Expanding Jordanian Exports

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Abstract

The unprecedented population growth, energy crisis, growing unemployment rates and declining investment levels are some of the major economic challenges that Jordan has been suffering from, particularly after the outbreak of political conflict in the region. Towards this end, the Jordan Compact, which was formulated during the London Donors’ Conference in February 2016, secures grants to support the implementation of the Jordan Response Plan 2016 and assist the Kingdom in absorbing the large population of Syrian refugees. As part of the compact, the European Union had pledged to provide Jordan with further assistance and facilitating trade between the Kingdom and European countries by relaxing the required Rules of Origin (ROO). As per the current negotiations between the Jordanian government and the EU, this relaxation would only cover industrial firms operating in a number of pre-identified Development Zones and in a select number of sectors over the span of 10 years.

The paper at hand aims to explore whether restricting the relaxation of ROOs to a number of Development Zones would have a substantial impact on the volume of trade between Jordan and the EU. Further, the paper proposes that ROOs are a major challenge when exporting to the EU, but true impact must be coupled with other reforms that would address the different challenges faced by Jordanian exporters. Thus, this research aims to identify other obstacles that hinder the ability of Jordanian industries to export.

The methodology adopted for the purposes of this research includes conducting semi-structured interviews with industrial firms (operating in and out of Development Zones). Respondents to the interviews were chosen on the basis of snowball sampling and include 15 factories in different sectors. The results of the interviews were qualitatively analyzed, in order to draw on policy recommendations.

The study finds that restricting the relaxation of ROOs to a select number of Development Zones excludes numerous industrial firms that currently operate outside these zones and are ready to export to the EU market immediately. In addition, the research concludes that relaxing ROOs is a necessary step towards supporting Jordanian exports, but alone it is not sufficient and must be accompanied with several other measures that would address the variety of obstacles faced by Jordanian industries.
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Introduction

Jordan continues to suffer from the economic repercussions brought about by ongoing regional turmoil and financial disturbances worldwide. This uncertainty call for an increased focus on Jordan’s trade and industrial policies as a gateway for achieving economic growth, creating jobs and resolving Jordan’s fiscal imbalances. Such outcomes, however, cannot be achieved without alleviating some of the main challenges facing local exporters and facilitating trade between Jordan and other countries.

One of Jordan’s current economic challenges is that its exports to the EU have dropped significantly due to strict legislations and policies in regards to identifying the origin of products or the origin of raw materials used in the production of products. The “Rules of Origin” serve the purpose of securing local products in host countries (the EU, in this case), but create a trade barrier between host countries and potential exporters (such as Jordan), particularly when exporting countries lack the natural resources required for production.

The Rules of Origin emphasize that products or raw material must originate either in the EU or from the country exporting to the EU. Jordan is a country that lacks sufficient raw material, and Jordanian manufacturers tend to import raw material from other countries for manufacture in Jordan. This therefore makes it very difficult for Jordan to export to Europe. After the Supporting Syrian and The Region Conference, which was held in London in early February, 2016, Jordan and Europe revisited the Rules of Origin. Europe agreed to relax the Rules of Origin on Jordan in exchange for an agreement that Jordanian industries would employ more Syrians in their workplaces and factories.

For Jordan, relaxing the “Rules of Origin” (ROOs) should mean easier access for domestic exports into the EU market, which would in return have a positive influence on Jordan’s trade transactions, hence spurring the Kingdom’s suffering economic growth levels. This paper aims to investigate the impact of relaxing ROOs between the European Union and Jordan on domestic exports. It is also an attempt to evaluate whether confining the relaxation of ROOs to specific industrial zones would lead to an increase in the exports of those industrial firms which are already qualified and prepared to export to the EU on the short term. The basic premise behind conducting this research is that although relaxing ROOs is significant for the alleviation of many challenges faced by Jordanian exporters, restricting it to a number of pre-determined industrial zones would not benefit several leading industrial companies, and
therefore it will remain difficult for some of Jordan’s premium exports to enter the European market. This would presumably limit the need of numerous factories for immediate expansion, and hence immediate employment of both Jordanian and Syrian labor. Additionally, the paper will investigate whether Rules of Origin pose the sole challenge inhibiting Jordanian exports from entering the EU market, or if there are other major obstacles that can be addressed in parallel in order to increase the number of Jordanian exports to EU countries.
Methodology

The adopted methodology will review the relevant literature on ROOs, examine existing agreements between Jordan and the EU, while carrying out through semi-structured interviews with exporting factories from different sectors.

Background and Examination of Existing Agreements

The first part of the research includes an extensive review of the literature and reports available on Jordan-EU relations and provides historical background on trade between the Kingdom and European counterparts. Further, the research refers to trade agreements between Jordan and the EU, including the Euro-Mediterranean Association Agreement and the Pan Euro-Mediterranean Protocol. The final section explores the different challenges faced by Jordanian industries and exporters, as explained in literature.

Interviews with major exporters in pre-identified sectors

The second section of this investigation will consist of semi-structured interviews with prominent industrial firms in different sectors. The objective behind conducting these interviews is to identify whether some of the major industrial firms will benefit from relaxing ROOs, and more specifically whether they would benefit from relaxing ROOs in specific Industrial Zones only. Also, the interviews will attempt to identify the main challenges, apart from ROOs, that hinder the ability of domestic exporters from exporting to the EU market. This is in addition to mapping policy recommendations as recommended by representatives of firms in the sample. The chosen sectors for the purposes of this research project include: Food, Garment, Chemicals and Furniture.

Questionnaire design, sampling and analysis:

The sample for this section of the investigation will be chosen through non-probability snowball sampling (or chain referral sampling). This means that the researcher identifies subjects from within his/her network of acquaintances, and then asks them to recruit others who are willing to participate (Noy, 2008).

As mentioned above, these interviews will be carried out in an semi-structured manner, during which an outline or a list of questions and issues will be tackled throughout the session, while creating ROOs for unstructured discussion as it
emerges (Saunders, Lewis and Thornhill, 2003). Accordingly, the basic skeleton for the interviews will be as follows:

- What is the size of your company (capital, revenues & number of employees)?
- Does your company export its products?
- What are the major destinations that your company exports to?
- How much of your production do you export?
- Do you export to the EU?
- If yes, what are the challenges that you face when exporting to the EU
- If no, why not?
- Do you consider ROOs to be the sole obstacle in trading with the EU?
- What policies can the Jordanian government adopt in order to make exporting to the EU and other regions easier for domestic industries?
- Would you relocate your business to industrial zones if ROOs were relaxed there only?
- If ROOs were relaxed for all Jordanian industries (regardless of location), would this necessitate you expanding your business?
- If yes, would this mean you would need to hire more employees? How many?
- Would you consider hiring Syrians for these additional jobs? How many?

**The Sample:**

Researchers were able to collect data from Exporting Officers in 15 different factories out of which 7 operate in industrial zones. The sample included 6 food manufacturing factories, 1 paper factory, 2 furniture factories, 4 garment and textile factories, in addition to 2 chemicals factories.
Rules of Origin and the European Union

When a country grants market access to another country it is generally dependent upon the specifications of the product being manufactured in the latter country. Cross-country market access presents itself as a rather complicated concept, particularly after the introduction of Global Value Chains in more recent decades (Amador and Cabral, 2014). Thus, identifying the origin of a product plays an important role in adequately setting tariffs, putting in place anti-dumping and countervailing measures, as well as determining tariff quotas (Jones & Martin, 2012). By definition, Rules of Origin (ROO) refer to “what an importing country considers the amount of value added in a good in a given exporting country sufficient for it to be counted as an export from that country” (Gibbon, 2008). According to the World Trade Organization (WTO), rules of origin are “the criteria needed to determine the national source of a product, and their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports” (WTO, 2016).

ROOs are typically associated with either non-preferential or preferential trade agreements (PTAs). Non-preferential ROOs are generally easier to understand, as they serve the purposes of setting tariffs, trade defense mechanisms and quotas, as well anti-dumping and countervailing measures. According to the European Commission (2016), Non-preferential Rules of Origin entail the following:

If a product has been produced in more than one country, it is considered to have origin in the country where the last substantial transformation took place.
If a product is wholly obtained or produced in one country, it is considered to have origin in that country (and can be called an ‘originating product’).

These rules differ, however, when associated with trade agreements. Preferential Trade Agreement (PTAs) allow trade between countries covered in the agreement at preferential or nil duty rates. However, each PTA signed by the European Union incorporates a set of ROOs that have to be complied with in order for the imported product to be considered eligible for preferential agreement under the PTA (Irish Tax & Customs, 2015). Under PTAs, the freedom of movement for goods is only granted to originating products, i.e: products originating in the EU or products originating in the country with which the EU has an agreement. The main rationale behind integrating ROO under PTAs is to prevent trade deflection, or what is referred to the “re-direction” of trade due to the formation of a free trade area (Naumann, 2006).

The below summarizes the two ways according to which a product is granted “originating” status.
Wholly obtained products: The products must be entirely obtained in the EU or relevant third country (coming from the country of origin). Examples include: mineral products, vegetable products, live animals, waste & scrap.

Sufficiently worked or processed products: Free channels of trade in today's economy mean that many goods that are produced for export to the EU will probably include parts/raw materials that originate from third countries that are not part of PTAs. ROOs for “Sufficiently Processed Products” are based on the principle that materials imported into an agreement country are regarded as originating there provided sufficient working or processing has taken place. In other words, goods to be imported to the EU by PTA partners must undergo enough working/processing that they qualify for preferential origin status (EU, 2015).

In spite of all the efforts amassed towards opening up trade channels across nations and promoting freedom of trade, especially by the World Trade Organization (WTO), ROO are put in place in order to establish the “nationality” of the good being traded. Goods manufactured in developing countries, in specific, are required to conform to certain standards and criteria, which often necessitate the existence of a domestic supply chain (Curran, 2014).

According to Eckart Naumann (2006), ROOs are convoluted rules that are applied non-homogenously across products, as they are often too complex and rather difficult to interpret. Naumann adds that ROOs typically serve the interests of host countries, as opposed to the beneficiary trade partners, making them a potential trade barrier. The study argues that vastly open channels of manufacturing and trade in today's global economy impels that products often undergo different procedures in several countries. Moreover, industrial processes in the modern sense (for both buyer-driven and producer-driven value chains) have led to the globalization of manufacturing for numerous products. In other words, raw materials are often acquired from one country, processed in another country and sold in a third country; a reality overlooked by numerous ROOs (Naumann, 2006).

A staff working document by the European Commission (EC), titled “Trade as a Driver of Development” (CEC, 2012) criticized ROOs for impeding free trade flows, especially when pertinent to PTAs. According to the EC paper, rigorous ROOs correlate with little use of preferential agreements, not to mention that the requirement to abide by stringent specifications for production is often a complex and burdensome process. The paper adds that complying with ROOs levies additional costs for both exporters and importers (CEC, 2012).
Gretton & Gali (2005) argue that although ROOs are integral components of trade agreements, they can to a certain degree hinder trade and investment, as well as constrain trade-driven growth. They also explain that ROOs add administrative costs to business as a result of having to comply with paperwork requirements, and Customs Departments face additional expenses due to inspection and auditing procedures. The restrictions caused by ROOs have led Gretton & Gali (2005) to refer to them as non-tariff trade barriers.

ROOs are one challenge that hinders the ability of Jordanian exports to access the EU market and fully exploit the PTA. Inevitably, trading with Europe through more simplified rules and regulations will promote Jordanian exports and allow for easier trade flow. The negotiations with the EU following the London Conference, proposed simplifications of ROOs will be restricted to certain development zones. Thus, the main issues the paper at hand aims to address include:

- Whether ROOs are the only obstacle that Jordanian exporters face in terms of accessing the European market.
- Whether the confinement of relaxed ROOs to certain Development Zones will have an evident impact on the volume of Jordanian exports to the EU. This is particularly important as several major Jordanian factories operate outside Development Zones and will not be able to take advantage of relaxed ROOs.

**Jordan and European Union**

Euro-Jordanian trade ties were made official as early as 1977, through the Cooperation Agreement and Jordan has been increasingly lending itself as a strategic partner to the EU in the region, particularly after the inauguration of the Euro-Mediterranean Partnership during the Barcelona Conference in 1995. In 1997, Jordan signed the EU Association Agreement in order to set the legal framework for establishing a Free Trade Area, and this agreement came into force in May 2002. In 2004, Jordan signed the Agadir Agreement with Egypt, Morocco and Tunisia, which then set the base for the establishment of the Euro-Mediterranean Free Trade Area (EC, 2016). Under the Agadir Agreement, concerned countries had agreed to remove all barriers to trade amongst them and have committed to easing custom procedures and trade-related legislation. This forecasted the rules of origin under the PanEuromed Cumulation of Origin, and Jordan was the first country to ratify the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin.

Jordan is also one of the EU’s partner’s under the European Neighborhood Policy (ENP), through which the EU aims to support 16 neighboring countries in the areas
of economic and democratic reform. Accordingly, EU-Jordan European Neighbourhood Policy Action Plan (ENP AP) was approved in 2005. This plan corresponded with the National Social and Economic Strategy at the time, and it was put in place to support economic and social development in the Kingdom.

In 2010, the EU granted Jordan “advanced status,” which helped to further strengthen ties with Jordan and expanding areas of cooperation through facilitated market access and more open trade relations. This is in addition to negotiations for a Deep and Comprehensive Free Trade Agreement. The advanced status classification shows the EU’s determination to maintain Jordan as a key partner, and reflects serious interest in promoting economic growth in Jordan.

More recently, the EU issued the Single Support Framework for EU Support to Jordan, which would cover the years 2014-2017. This action plan focused on labor-market reform and job creation through the private sector, as well as addressing the budgetary strains that were brought about after the outbreak of the Arab Spring in 2011 and the emergence of the energy crisis in the Kingdom. According to the 2014-2017 Action Plan:

“Strengthening trade ties is an important element of the second EU-Jordan ENP Action Plan and enhancing trade is an instrument to stimulate sustainable economic growth, improve competitiveness and support economic recovery. Concerning a 'Deep and Comprehensive Free Trade Area' (DCFTA) between the EU and Jordan, the preparatory process is well advanced and formal negotiations can be launched as soon as both sides are ready.” (Jordan Action Plan 2014-2017)

In light of the developments delineated above, trade is evidently perceived as a vital aspect in terms of strengthening links between Jordan and the European Union. The Central Bank of Jordan’s (CBJ) database shows trade developments between Jordan and European countries. In spite of the abovementioned agreements, Jordanian exports to the EU dropped by 47.6% between 2008 and 2015 where their value reached around JD123.5 million. Between 2014 and 2015 alone, Jordan's exports to the EU dropped by 75%. When compared to the general performance of the economy, total Jordanian exports have increased by 8% between 2008 and 2015, and dropped by only 7% between 2014 and 2015 (a decrease far less significant than the 75% drop in exports to the EU). Although Jordanian exports have not shown major increases in value in recent years, the significant drops in exports to the EU specifically may indicate that local exporters face several difficulties when trading with EU and perhaps European countries have become less appealing destinations for Jordanian exports.
As opposed to exports, Jordan’s imports from the EU are significantly higher, and have reached around 3.1 billion JDs in 2015; a 3.6% drop compared to 2014. Between 2008 and 2015, the Kingdom’s imports from the EU rose by 17%. According to the CBJ, machinery and transport equipment constituted around 31% of Jordan’s imports from the EU, while food (including live animals) and chemicals made up 18% and 15%, respectively. The structure of trade between the Kingdom and its European counterparts raises questions about trade barriers facing Jordanian exports and the ways in which PTAs could be utilized in order to augment trade between Jordan and the EU. The table below summarizes the EU’s imports from Jordan by commodity:

Figure 1: Jordanian Exports to the EU by Commodity (European Commission Trade Database2016)

<table>
<thead>
<tr>
<th>SITC Rev. 3 Product Groups</th>
<th>Value Mio €</th>
<th>% Total</th>
<th>% Extra-EU</th>
<th>% Growth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>337</td>
<td>100.0</td>
<td>0.0</td>
<td>-4.4</td>
</tr>
<tr>
<td>Primary products</td>
<td>70</td>
<td>20.7</td>
<td>0.0</td>
<td>-2.4</td>
</tr>
<tr>
<td>- Agricultural products (Food (incl. Fish) &amp; Raw Materials)</td>
<td>33</td>
<td>9.8</td>
<td>0.0</td>
<td>-69.9</td>
</tr>
<tr>
<td>- Fish</td>
<td>27</td>
<td>8.0</td>
<td>0.0</td>
<td>14.7</td>
</tr>
<tr>
<td>- Raw materials</td>
<td>6</td>
<td>1.9</td>
<td>0.0</td>
<td>23.2</td>
</tr>
<tr>
<td>- Fuels and mining products</td>
<td>37</td>
<td>10.8</td>
<td>0.0</td>
<td>-14.8</td>
</tr>
<tr>
<td>- Ores and other minerals</td>
<td>30</td>
<td>9.0</td>
<td>0.1</td>
<td>-25.2</td>
</tr>
<tr>
<td>- Fuels</td>
<td>0</td>
<td>0.0</td>
<td>0.0</td>
<td>-45.0</td>
</tr>
<tr>
<td>- of which Petroleum and petroleum products</td>
<td>0</td>
<td>0.0</td>
<td>0.0</td>
<td>-45.0</td>
</tr>
<tr>
<td>- Non ferrous metals</td>
<td>6</td>
<td>1.8</td>
<td>0.0</td>
<td>194.4</td>
</tr>
<tr>
<td>Manufactures</td>
<td>246</td>
<td>73.0</td>
<td>0.1</td>
<td>-6.3</td>
</tr>
<tr>
<td>- Iron and steel</td>
<td>0</td>
<td>0.0</td>
<td>0.0</td>
<td>109.3</td>
</tr>
<tr>
<td>- Chemicals</td>
<td>130</td>
<td>38.4</td>
<td>0.1</td>
<td>38.3</td>
</tr>
<tr>
<td>- of which Pharmaceuticals</td>
<td>3</td>
<td>0.9</td>
<td>0.0</td>
<td>29.0</td>
</tr>
<tr>
<td>- Other semi-manufactures</td>
<td>15</td>
<td>4.4</td>
<td>0.0</td>
<td>16.2</td>
</tr>
<tr>
<td>- Machinery and transport equipment</td>
<td>67</td>
<td>19.7</td>
<td>0.0</td>
<td>-44.4</td>
</tr>
<tr>
<td>- Office and telecommunication equipment</td>
<td>4</td>
<td>1.1</td>
<td>0.0</td>
<td>-9.6</td>
</tr>
<tr>
<td>- Electronic data processing and office equipment</td>
<td>1</td>
<td>0.2</td>
<td>0.0</td>
<td>-24.7</td>
</tr>
<tr>
<td>- Telecommunications equipment</td>
<td>1</td>
<td>0.3</td>
<td>0.0</td>
<td>-41.2</td>
</tr>
<tr>
<td>- Integrated circuits and electronic components</td>
<td>2</td>
<td>0.5</td>
<td>0.0</td>
<td>63.1</td>
</tr>
<tr>
<td>- Transport equipment</td>
<td>55</td>
<td>16.4</td>
<td>0.1</td>
<td>-35.2</td>
</tr>
<tr>
<td>- of which Automotive products</td>
<td>1</td>
<td>0.4</td>
<td>0.0</td>
<td>81.5</td>
</tr>
<tr>
<td>- Other machinery</td>
<td>8</td>
<td>2.3</td>
<td>0.0</td>
<td>-76.8</td>
</tr>
<tr>
<td>- Power generating machinery</td>
<td>2</td>
<td>0.5</td>
<td>0.0</td>
<td>-92.8</td>
</tr>
<tr>
<td>- Non electrical machinery</td>
<td>5</td>
<td>1.4</td>
<td>0.0</td>
<td>11.4</td>
</tr>
<tr>
<td>- Electrical machinery</td>
<td>1</td>
<td>0.4</td>
<td>0.0</td>
<td>-72.4</td>
</tr>
<tr>
<td>- Textiles</td>
<td>7</td>
<td>2.1</td>
<td>0.0</td>
<td>32.0</td>
</tr>
<tr>
<td>- Clothing</td>
<td>18</td>
<td>5.5</td>
<td>0.0</td>
<td>34.1</td>
</tr>
<tr>
<td>- Other manufactures</td>
<td>9</td>
<td>2.8</td>
<td>0.0</td>
<td>-29.5</td>
</tr>
<tr>
<td>- of which Scientific and controlling instruments</td>
<td>2</td>
<td>0.7</td>
<td>0.0</td>
<td>-53.9</td>
</tr>
<tr>
<td>Other products</td>
<td>21</td>
<td>6.3</td>
<td>0.1</td>
<td>-6.1</td>
</tr>
</tbody>
</table>
In a report titled the “Evaluation of the European Union’s Cooperation with the Hashemite Kingdom of Jordan, Country Level Evaluation” (Vaes et al., 2015), the European Commission concluded that Jordanian industries find it difficult to actively take advantage of the EU-Jordan Association Agreement due to rigorous ROO rules. As an example, the trade agreement between Turkey and Jordan allows for “diagonal cumulation of origin”. According to the report, however, “the actual implementation of such system still needs to be optimized, as industries need to adjust to such new system through changing the sources of their input materials to Pan Euro-Med countries, which in turn may not be cost effective and sometimes not feasible” (Vaes et al., 2015, p.45-46).

The debate over ROOs under the PTA between Jordan and the EU was revived during the Supporting Syrian and The Region Conference, which was held in London in early February, 2016. This initiative brought the donor community and hosting countries together in order to discuss the crisis of Syrian refugees and the burdens exerted on the developing states in which they have settled (Jordan Times, 2016). Based on the results of the 2015 Census, there are currently over 1.27 million Syrians residing in Jordan (DOS, 2016). This unprecedented increase in population has been pressuring the country’s national accounts and exacerbating its already limited resources, making the London conference a valuable opportunity for the Kingdom to get the attention of the international community.

Through the conference, Jordan was able to secure US$ 1.7 billion in extra aid that will be disseminated over the span of three years. As per the negotiations held in London, this aid flow is to be directed towards three main aspects (Financial Times, 2016):
Rebuilding the host community and supporting infrastructure in line with the 2016-2018 Jordan Response Plan;
Supporting Jordan in addressing fiscal issues and covering its widening budget deficit;
Attracting new investments to Jordan and creating job opportunities for Syrians.

In return to the support extended by the donor community, the Jordanian government expressed its commitment to bettering the business climate in the country and undertaking the necessary structural and regulatory reforms for the support of local and foreign investors. In this respect, Jordan and the EU were able to negotiate simplifying ROOs for a period of 10 years, in order to expand Jordan's trade potential and facilitate access to the EU market. The initial negotiations following the Jordan Compact entail simplifying the ROOs in five designated Development Zones. This initiative is perceived as a ‘breakthrough’ for Jordanian industries, and it will potentially help the Kingdom create thousands of jobs for Jordanians and Syrians alike (ReliefWeb, 2016).

On the 16th of June, 2016, the EU submitted a Proposal for a Council Decision on the issue of ROOs with Jordan. As stated in the proposal, the change in ROOs would only cover specific Industrial Zones (Alhussein Bin Abdullah II Industrial City, Aljeeza Industrial Area, Alqastal Industrial Area, Al Tajamuat Industrial City, Dulail Industrial City, Irbid Development Zone and Irbid Alhassan Industrial City, King Abdullah II Bin Alhussein City, King Hussein Bin Talal Development Zone, Ma’an Development Zone, Marka Industrial Area and Muwaqqar Industrial City). The relaxation will also cover specific products and is subject to a number of conditions. According to the EU, it must be ensured that this change in policy directly contributes to the employment of Syrian Refugees in Jordan. The proposal clearly states that factories wishing to benefit from relaxed ROOs must hire “a proportion of Syrian refugee labour in the relevant production facilities (at least 15% at the outset, rising to 25% from year three).” The EU also offers that the percentage on non-originating material that can be used by manufacturers is increased from 40% to 70%. All these efforts are in the hopes that the Kingdom will be able to secure jobs for around 200,000 Syrians. As promised in the EU’s proposal, once Jordan does provide all 200,000 jobs for Syrians the relaxation of ROOs could be expanded to all Jordanian producers and all Jordanian products throughout the Kingdom.

The section below elaborates on the ROOs that Jordanian exports are subject to under the Euro-Mediterranean Association Agreement.
Rules of Origin under the Euro-Mediterranean Association Agreement (EMAA)

Jordan concluded the Euro-Mediterranean Association Agreement in 1997. Other countries who signed this agreement with the EU, include: Tunisia, Israel, Morocco, the Palestinian Authority, Algeria and Lebanon. In general, the ROOs under these agreements are consistent across all countries and call for relatively similar measures.

Even under this agreement, Jordanian industrial products remain to face major challenges that prevent them from benefiting from the applied ROO which include: stringent product specific rules that require in their majority Jordanian manufactured products to undergo certain manufacturing processes, high percentages of local content reaching up to 60% like (carpet, embroidered garments, air conditions, home appliances) and in other cases wholly obtained inputs. This challenge had made it rather difficult for Jordanian industries to capitalize on trade agreements with the EU and it was what the current negotiations on ROOs between the Kingdom and the EU aim to address.

The local industry cannot fulfil such requirements, as the structure of the Jordanian industry is based on assembly processes in a number of sectors. Under other FTA’s that Jordan is part of, where simpler Rules of Origin are applied, it is more practical and beneficial to the Jordanian manufacturing exporters to meet the ROO requirements, which enables Jordanian export products better market access. The simple rules of origin, which are applied under Jordan’s FTAs with the United States (flat rate 35% local value added) and Arab States Greater Arab Free Trade Area (GAFTA) (flat rate of 40% local value added) and with Canada (simple specific rules of origin mostly tariff shift), have shown a positive impact. Such simplified rules have shown a significant increase in exports through utilizing FTAs, even where inputs from third countries would undergo manufacturing and processes to qualify under these new ROO. Jordan’s scarcity of resources and its heavy reliance on imported inputs from countries that entered the Pan-EuroMed protocol makes it difficult for our industries to meet these ROO.

In 2006, Jordan adopted the Pan-Euro Med Protocol, which allowed for diagonal cumulation of origin, which means that goods exported to the EU can come from more than one country under the protocol and it would still be considered a ‘domestically
produced good’ and would benefit from the PTA. This type of cumulation, however, is rather complex to achieve. According to Nsour & Dmour (2013), diagonal cumulation under this agreement has to fulfil the following conditions:

Free Trade Areas with identical ROO should be in place between both the EU and the Southern Mediterranean countries;
All administrative procedures have to be harmonized between countries under the protocol;
All draw-back provisions should be withdrawn.

According to Pan-EuroMed ROO, Jordan can accumulate with (37 countries out of 44 Mediterranean countries) which are (28) EU countries, (4) EFTA counties (Switzerland, Norway, Iceland and Liechtenstein), (3) AGADIR countries (Egypt, Tunisia and Morocco), Turkey and Israel. However, these countries have similar industrial structure, and do not produce the raw materials needed as inputs for their industries. Thus, Jordan did not benefit from the accumulation due to the lack of raw materials that Jordan needs for its industries, at a competitive price. Therefore, the diagonal accumulation to be sourced from these countries has not benefited Jordan’s industries.

Other Barriers to Trade Faced by Jordanian Industries

The literature review finds that although ROOs are a major hindrance to the expansion of Jordanian into the EU market, there are numerous other challenges that make exporting from Jordan a constant challenge. According to a report by the USAID’s Jordan Fiscal Reform Project II (FRP II) titled ‘Survey of Trade Barriers and Facilitation Mechanisms in Jordan’ there are 34 bodies responsible for regulating trade in Jordan and they often require complex paperwork to be completed by exporters. Harmonization and coordination between these agencies are described as lacking, and their procedures are often inefficient, poorly controlled and involve duplication of effort (Tarawneh, 2010).

The FRP II report identifies several challenges that the Jordanian trading sector faces when accessing foreign markets. On one hand, industries find it difficult to obtain accurate information from regulatory bodies and in some cases the regulations adopted by such authorities are “either missing or non-binding” (Tarawneh, 2010, P. VI). The report adds that trade regulatory agencies lack Standard Operating Procedures (SOPs), due to which they exporters often experience long delays in completing required transactions. Further, weak linkages between government
agencies make it very difficult for exporters to accurately estimate the expenses and fees associated to business transactions (Ibid).

This is in addition to operational issues related to governmental appeal mechanisms and low confidence in “laboratory testing of goods”, which is a routine requirement by relevant government agencies (Ibid). The report also discusses the concerns raised by Jordan’s trading sector due to lack of consultation by the government, particularly when changing/amending trade related regulations and legislations. According to the World Bank Doing Business Report, it takes around 13 days to approve the export of a container from Jordan and it costs around US$825.

The Jordan National Export Strategy 2014-2019 (MITS) which was developed in coordination with the International Trade Center (ITC) and the Canadian Foreign Affairs, Trade and Development Office puts forward a plan to promote Jordanian exports and alleviate some of the challenges the trading sector faces. It is imperative to address most obstacles facing Jordanian exporters, as opposed to solely focusing on ROOs. Some of the most prominent challenges as identified by the strategy are summarized below:

<table>
<thead>
<tr>
<th>Area</th>
<th>Details</th>
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<tbody>
<tr>
<td>Capacity</td>
<td>▪ SMEs susceptible to market-demand fluctuations and unable to meet the demand for high volume orders.</td>
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<td></td>
<td>▪ Low value-retention and very few sectors use advanced technology</td>
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<td></td>
<td>▪ Weak access to finance through investment funds, export credit or loan guarantees, especially for SMEs.</td>
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<td></td>
<td>▪ Weak linkages between the service sector and the manufacturing sector.</td>
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</table>
| **Capacity Diversification** | • Domestic exports are highly dependent on traditional markets that are influenced by external factors.  
• Low exploitation of FTAs  
• Staff in trade related government institutions lack the skills to advice on international trade mechanisms.  
• Low Research & Development levels, making it difficult for local industries to respond to “dynamic market demands” |
| **Human Capital** | • Big gap between the labor market and the skills required by industries.  
• Education system does not focus on certain areas that would meet the demands of industries. |
| **Infrastructure** | • Weak infrastructure in the areas of transport, energy and ICT, especially in governorates outside Amman.  
• Lack of coordination between government bodies, particularly on issues related to trade.  
• Many businesses (especially SMEs) do not know how to fully benefit from trade agreements  
• Labor legislation perceived as “burdensome” by industries. |
| **Trade Facilitation Issues** | • Cumbersome, overlapping and long official processes  
• Custom procedures remain vague and long delays take place when completing standards & metrology procedures.  
• Automation facilities not exploited, making the process costly and time consuming.  
• Very weak transport infrastructure.  
• Transit to seaport is very expensive.  
• No transportation links with partners in FTAs (many countries in North Africa, Central Asia and Latin America) |
| **Cost of Doing Business** | • High cost of starting a business (equivalent to 13.8% of per capita income) |
As mentioned earlier, this paper aims to investigate, through primary research, whether ROOs are the only main obstacle impeding with Jordanian exports expansion to the EU, it will also identify any other challenges expressed by exporters. The study will also explore whether confining the relaxation of ROOs to a number of pre-identified Industrial Zones will have a significant impact on Jordanian exports that is enough to generate the required amount of jobs for Jordanians and Syrians on the short/medium-term. The section below elaborates on the methodology adopted for the purposes of this research.

<table>
<thead>
<tr>
<th>Market Access &amp; Policy Reform</th>
<th>Lack of knowledge amongst exporters on how to take advantage of preferential treatment and potential trade opportunities</th>
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<tbody>
<tr>
<td></td>
<td>Non-tariff barriers, namely visa requirements</td>
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<td></td>
<td>Poor knowledge of the WTO regulations amongst exporters</td>
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<td></td>
<td>Low standards in the country in terms of labeling and packaging</td>
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<td></td>
<td>Low quality management and difficulty to conform with international standards</td>
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<th>Trade Services Support</th>
<th>Limited availability of trade information</th>
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<tbody>
<tr>
<td></td>
<td>Poor marketing activities</td>
</tr>
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<td></td>
<td>Poor representation of Jordanian industries abroad</td>
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</tbody>
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<table>
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<tr>
<th>National Promotion and Branding</th>
<th>Many Jordanian products cannot meet the standards required by trade partners</th>
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<tbody>
<tr>
<td></td>
<td>Investment promotion strategy is in some cases not in line with export promotion</td>
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<td></td>
<td>Government does not sufficiently match local exporters with potential importers</td>
</tr>
</tbody>
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Analysis

The conducted interviews revealed the following results:

1) **Numerous obstacles associated with exporting to Europe**

Only 3 out of the 15 factories in the sample stated that they already do export to Europe, while the remaining 12 said that they do not export to Europe at all. Even the three factories that do export to the EU expressed that they export to a limited number of European countries and that the EU is not their main export destination. While Rules of Origin do pose a significant challenge (as explained by 10 out of 15 factories), industries identified other obstacles that make Europe an unattractive trade partner, in spite of the existence of trade agreements between Jordan and the EU. These obstacles are delineated below:

- 9 out of the 15 factories said that difficulties and expenses associated with shipping costs make it very expensive for them to export their products to European countries, especially through Aqaba Port. The issue is twofold; shipping to Europe from Jordan is often a lengthy process and exporters often experience delays, making it very difficult for them to deliver their products to other countries on time, which leads to much inefficiency. Secondly, the high cost of shipping makes it necessary for the exporter to raise the retail price of products, leaving Jordanian exports unable to compete in the highly diversified and competitive EU market. Several garment factories find that the quality of their products does not differ from what is already available in the European market, but they are forced to charge higher prices due to the cost of shipping, which does not appeal to distributors or consumers in the EU. Also, a respondent from a food manufacturing factory explained that there numerous duties, fees and regulations associated with shipping products in and out of Jordan, making it very costly for exporters and leaving Jordanian products uncompetitive.” The interviews reveal that expansion to European markets, even in the case that Rules of Origin are relaxed, cannot be possible if issues associated to shipping are not resolved.

- 6 out of the 15 factories explained that they have experienced difficulties finding agents and distributors in Europe. 3 factories stated that they have made several attempts to connect with European partners but failed, after which they became uninterested in tapping into the EU market. According to a respondent from a garment factory: “we do not view Rules of Origin as the main obstacle to exporting because we do not get to that late stage in the process. Our struggle with Europe begins at a very early stage, which is access to the market.” The interviews reveal that many factories do not have sufficient information about the European
market, whether be it the trade agreement between Jordan and EU, possible opportunities to export, or what Jordanian products are able to compete in the EU market. The lack of information makes many exporters, as revealed by the research, disinterested in the EU as a trade partner, which is perhaps an issue that goes beyond the complexities of Rules of Origin.

- Legislative instability in Jordan was identified as another obstacle to export by 5 of the factories in the sample. Several manufacturers explained that the constant changes made to trade-related rules and regulations, particularly those on duties & customs, make them timid of expanding to new markets. According to one respondent from a food manufacturing factory: “we are scared that if we expand to an entirely new market and become reliant on it that we would face a surge of legislative changes, which could negatively affect us on the long-run.”

- The high cost of electricity was mentioned as another limitation to trading and export expansion by 4 of the factories in the sample. These respondents explained that they have been recently suffering from increasing prices of electricity; a factor that has limited their production capacity in such a machinery-intensive sector. According to a respondent from a paper factory, “the government does not sufficiently support the industrial sector when it comes to electricity prices like other neighbouring countries- Egypt for example. This adds significantly to the cost of production, which then adds to the pricing of goods.”

- 4 respondents further explained that meeting European quality specifications is another challenge to accessing the EU market. For many sectors, it is not only Rules of Origin that limits exporting to Europe, but obtaining other industry-specific certifications as well. One factory mentioned that acquiring “EU related Environmental Certificates and Nordic Certificates” is rather difficult, while a respondent from the food industry explained that getting a “slaughter certificate” has always been a major obstacle when trading with the EU.

2) **Industries will benefit from relaxing Rules of Origin and they are willing to hire Syrians**

When asked whether relaxing Rules of Origin (regardless of location) would increase their ability to export, 13 of the 15 factories in the sample responded positively. These 13 factories have also explained that relaxing Rules of Origin, if other major obstacles are alleviated, would necessitate them to expand their export capacity, and therefore hire more labour. Furthermore, when asked whether reducing the Rules of Origin requirement to 35% would be beneficial, 4 factories responded saying that it certainly is, while others stated that it remains a very high percentage for the production of their products, as they import all their raw materials from other countries, like China and India.
All 13 factories also stated that if their business does grow then they have no objection to hiring Syrian labour, given that Syrians will replace other migrant workers and not Jordanian ones. According to a respondent from a furniture manufacturing company: “we do not discriminate against nationality or gender in our hiring. Thus, if our business does expand after relaxing Rules of Origin, then we would surely consider hiring Syrians.” While a respondent from a chemicals factory stated that: “nationality is irrelevant. What we care about is efficiency. If Syrians prove themselves capable of doing the job, then we will certainly hire.” What is more interesting is that the two factories that responded negatively are garment manufacturers already operating in industrial zones.

3) **Factories outside Industrial Zones have the potential to export to Europe, but will not relocate**

8 of the 15 factories in the sample operate outside Industrial Zones. These factories will not be subject to relaxed Rules of Origin, if this policy is confined to Industrial Zones only. This is although all 8 factories had explained that they do have the ability to export to Europe if they can benefit from more lenient Rules of Origin. Also, all 8 factories had stated that they would expand their business and hire Syrians if they were able to benefit from this agreement. Nevertheless, all of the 8 factories have expressed no interest in relocating their factories to Industrial Zones if Rules of Origin are relaxed there only. As explicitly stated by respondents, the benefits of expanding to Europe are not enough to offset the costs associated with relocating their factories or opening up new factories in these zones. According to a respondent from the garment industry: “It is a shame that a company like ours will not benefit from relaxing the Rules of Origin. We already export to Europe and have the potential to expand these exports as of tomorrow.” Another respondent from the sector stated that “if the Rules of Origin are relaxed to 35%, we would export to Europe immediately.”

4) **Food manufacturing firms have the potential to compete in the EU market**

According to the EU’s Proposal for a Council Decision on relaxing Rules of Origin between Jordan and the EU (issued on June 16th, 2016), food related products are not included in the list of items that will be covered by the relaxation of Rules of Origin. This research project, however, included 6 food manufacturing firms in the sample. All six factories have expressed their interest in exporting to Europe but also stated that they find the strict Rules of Origin a major challenge. According to a respondent from a food manufacturing firm: “There is a big market for us to compete in in the EU as we would target Muslims residing in European countries, who often find it difficult to purchase ‘Halal’ meat. It is easy for us to enter the market as a large proportion of the target group already know about our products and are acquainted with our brand.”
5) Many factories are not well informed about Rules of Origin

The conducted interviews reveal that several factories from different sectors are not fully aware of the details of the Rules of Origin, or the current negotiations between the EU and Jordan in this regard. Although, all respondents had a basic understanding of the issue, many were unable to discuss the details associated with Rules of Origin and were unable of identifying how their firms to fully capitalize relaxing these requirements.
Conclusion

The current debate on relaxing Rules of Origin with the EU definitely gives some prospects for expanding Jordanian exports and giving certain firms and industries the ability to tap into the European market and capitalize on trade agreements with the EU. The EU proposes to raise the threshold for non-originating materials from 40 to 70% for specific products in specific industrial zones. This initiative aims to help the Jordanian economy by potentially raising the volume of exports and primarily targets creating at least 200,000 jobs for Syrian refugees residing in Jordan.

While this study asserts the importance of relaxing Rules of Origin with the EU and acknowledges the different benefits that will be brought about by this initiative, it argues that several other factors must be taken into account. Firstly, Jordanian exports face many other challenges when exporting to Europe. Thus, although relaxing Rules of Origin is necessary, it might not alone be sufficient for achieving the impact that both the EU and the Jordanian government hope for. The obstacles include, high shipping costs, the lack of adequate market information, high electricity prices, and legislative instability.

Secondly, the research shows that Jordanian exporters do not have any reservations regarding the hiring of Syrians. Almost all factories affirmed that they do not discriminate against nationality in their hiring process and that Syrian labour would substitute for migrant labour. Therefore, the more Jordanian exporters are able to expand their production, the more Syrian labour they will be willing to hire.

Unfortunately, however, several factories that are ready to export their products to Europe and expand their operations will not be able to benefit from the relaxed Rules of Origin due to their confinement to certain Industrial Zones. As revealed in the interviews, many renowned Jordanian manufactures who can meet the quality demanded by the European market and do already produce in large quantities are ready to begin immediately exporting to Europe, making them instantly able to create jobs for both Syrian and Jordanian labor. These firms, however, are not willing to move to Industrial Zones to benefit from relaxed ROOs due to the costs associated with relocating their factories.

This study has also identified that the food sector could be an untapped resource that is being excluded of the new relaxation policy although a considerable number of food manufacturers in Jordan do have the ability and are willing to enter the European markets. Food manufacturers their target consumers is the large Muslim and Middle-Eastern population.
residing in Europe who are looking to consume foodstuffs from the region, particularly Halal meat.

Lastly, researchers find that awareness must be spread regarding the detailed specifications of Rules of Origin so that firms can better realize the benefits of this new policy.

Based on the above, the Jordan Strategy Forum proposes the following recommendations:

- The Jordanian government to invest in finding ways that would make shipping more efficient and less costly for exporters, as many factories have listed shipping as a major hindrance to trade.
- Jordan and the EU to link Jordanian exporters with agents in the European markets, help them find distributors, understand competition and learn the facts about trading with the EU. This could be possible through creating an EU Market Information System.
- Jordanian and EU officials to make acquiring specific certifications clearer and easier for local exporters.
- The Jordanian government to re-assess the impact of the current electricity tariff on Jordanian industries through exploring more sustainable alternatives that would not be a cost on the government but would also reduce the burden on industries.
- The relaxation of Rules of Origin to be expanded in terms of geographical location beyond the boundaries of the Industrial Zones listed in the EU’s Proposal for the Council Decision.
- Raising awareness and providing training on Rules of Origin and showcasing to different industrial firms how they can further exploit this policy to expand their businesses.
- Consideration of food manufacturing as one of the sectors covered by the relaxation of Rules of Origin due to its potential in the European market. This could be regulated in a manner that ensures that food manufacturing firms due acquire any other necessary certifications required by the EU.
References


