

Rules of Origin Explained: How Goods Qualify for FTA Duty Rates

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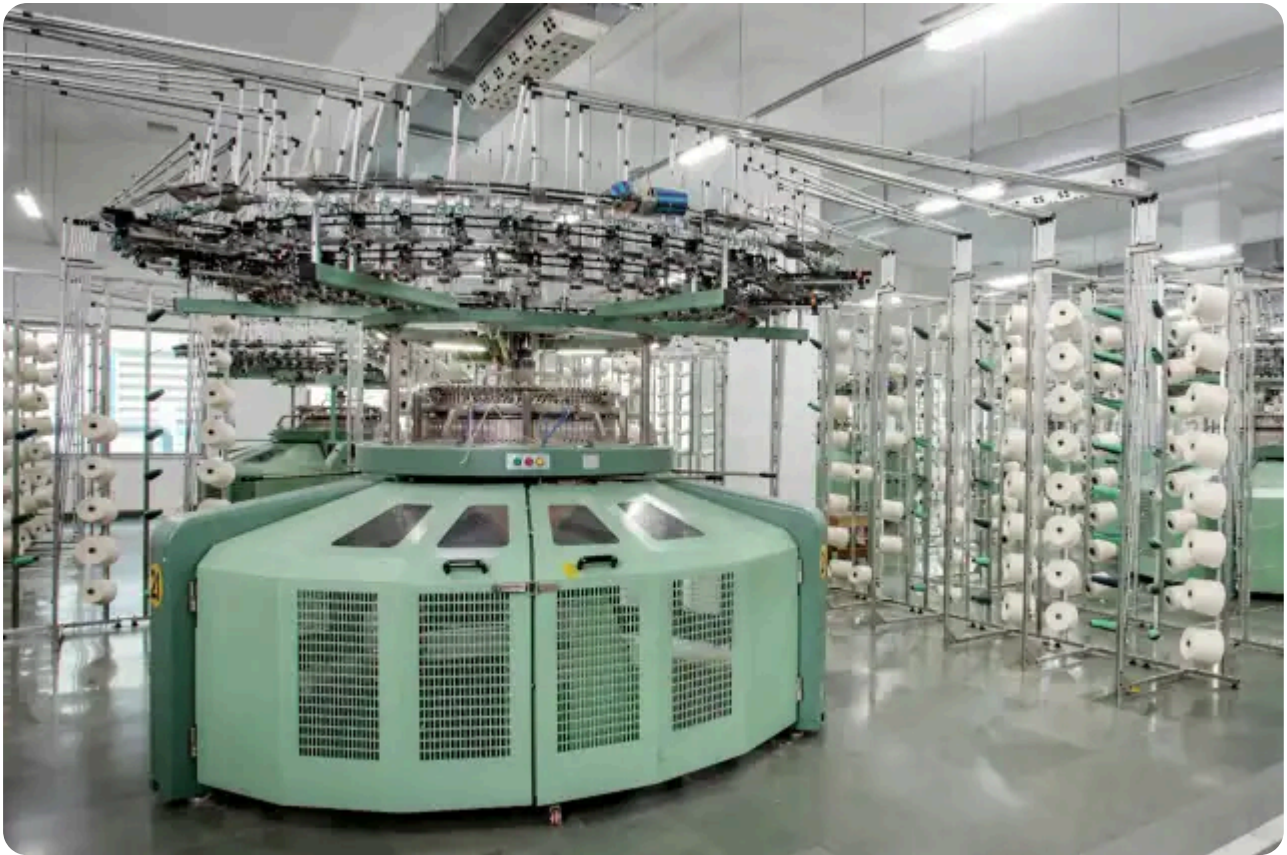
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Rules of origin decide whether a product made in India actually qualifies for a trade agreement's lower duty, based on what happened inside the factory rather than where the container sailed from. This guide explains the four kinds of rule, how to read the annex for your line, tolerance and accumulation, and works through a cotton T-shirt and a wooden sideboard into the UK, Australia and New Zealand.

The Short Version

- Read the joining word first: "and" means both tests must pass, "or" means one is enough.
- Tolerance forgives a failed tariff shift but never a failed value test.
- Only India and the partner country count as local, so Chinese or Bangladeshi fabric never does.
- A T-shirt sewn in India from imported fabric can fail on value, and fails the UK's DCTS outright.
- Put the origin criterion, a list of imported inputs and a records clause in the PO, because customs collects from the importer.

In August 2026 an Indian law firm posted a short case that should be pinned above every importer's desk. An exporter in Karnataka "routed a shipment through a UAE hub, expecting the preferential tariff available under the India UAE CEPA". Months later, on post-clearance review, customs "denied the concessional rate entirely", because the certificate of origin "did not meet the specific rules of origin threshold the agreement actually requires" ([LinkedIn, United Law Chambers, 2026](#)). The paperwork existed. The origin didn't.



That's what this guide is about. The 0% on your tariff line is an offer with conditions, and the conditions care about what happened inside the factory, not which port the container left from. We'll give you the method for reading any agreement, then work it through an Indian cotton T-shirt into the UK and Australia and a wooden sideboard into New Zealand. One honest caveat - origin is decided on the maker's bill of materials, which you'll rarely see in full, so a lot of this guide is about knowing which questions to ask.

*Last researched 25 September 2026 · Next review 19 November 2026 ·
Written by SourcingFrom*

Qualifying and proving are two separate jobs. This page is the first one. Which document proves it, and who signs, is in certificate of origin.

1. Origin Is Earned, Not Shipped

Every agreement we've read gives a product origin in one of three ways, and the UK-India agreement puts it cleanly ([CETA Chapter 3, Article 3.2](#)). A good can be wholly obtained – grown, mined, fished or raised there, like whole turmeric from Erode. It can be made only from materials that already qualify. Or it can be made from imported materials that pass the rule written for that specific product, and that's where almost every manufactured good lives and where the trouble starts.

Trade people call that third route "substantial transformation", but the agreements rarely use the phrase. They write the idea down as codes in an annex, one rule per chapter, heading or subheading, and those codes are what you actually have to read.

One condition sits over all three routes. The last production step has to happen in the exporting country (CETA Article 3.2, footnote 2, and the ABF says the same of Australia's ECTA). A shirt finished in Dhaka isn't Indian because its fabric was.

2. The Four Kinds of Rule You'll Meet

The good news is that the vocabulary is small, and the UK, New Zealand and Australian agreements with India define it in the same words ([UK Annex 3A](#) · [NZ Annex 3A](#) · [ABF ECTA guide, section 6](#)).

WO means wholly obtained, with no imported material beyond a tiny tolerance. The tariff-shift rules ask every imported input to change code – CC means a change of chapter (the first two digits), CTH a change of heading (four digits) and CTHS a change of subheading (six). Imported fabric from chapter 60 becoming a T-shirt at heading 6109 passes a CTH. Imported T-shirts that come out as printed T-shirts, still 6109, don't.

The value test, QVC or RVC, asks for a minimum share of local value, worked out with a formula (section 3). Then there are process rules, which name an operation that must happen locally, such as "knitting and making-up" for garments under the UK's DCTS scheme.

Rules combine, and the joining word matters more than the number. "CTH and Standard QVC" means both, and failing either fails the good. "CTSH or QVC" means pass one and you're done (UK Annex 3A, headnotes 7 and 8). Read the conjunction before you read the percentage.

3. How to Read the Annex for Your Line

Start with the code, in the right edition. The UK and NZ annexes are written in HS 2022, but Australia's ECTA Annex 4B is in HS 2017 (ABF guide, section 6), and a code that moved between editions can land on a different rule. If you're not sure of your six digits, find your HS code first.

Then find the most specific entry. A subheading entry beats a heading, which beats a chapter, and "ex" in front of a code means the rule covers only part of it. If your line isn't listed at all, some agreements apply a general rule, and ECTA covers about 4,578 subheadings that way (ABF guide, 6.2). Read any section note too, because some add conditions or offer an alternative (UK Annex 3A, headnote 3).

Then note the percentage and the method. "Standard QVC" in the UK agreement means 40% of the ex-works price or 45% of the FOB value by build-down, or 35% by build-up (headnote 9(f)). New Zealand states its percentages for build-down, with build-up 10 points lower. Australia's general rule is 45% build-down or 35% build-up on FOB (ABF guide, 6.2).

The formulas are simple. Build-down is the value of the good minus imported materials, divided by the value of the good. Build-up is originating materials divided by the value of the good (CETA Article 3.5, NZ Article 3.5).

Build-down counts labour, overhead and margin as local, and build-up counts only local materials. For a labour-heavy product made in India, build-down is nearly always the easier pass, and the producer gets to choose.

The tariff-shift test only applies to imported inputs (UK headnote 4, NZ headnote 3), so Indian inputs don't need to shift at all. That's why the working document is a bill of materials - each input, its HS code, where it came from and what it cost landed at the factory. The UK's annex is on [GOV.UK](https://gov.uk) and on each commodity page of the UK tariff. Australia's rules are line by line on the [DFAT FTA Portal](https://dfat.gov.au/fta-portal/), and New Zealand's are on [MFAT](https://mfat.govt.nz/).

4. Tolerance Forgives Less Than You Think

Tolerance, also called de minimis, forgives a small amount of imported material that fails the tariff shift. The UK allows up to 12.5% of the good's value for chapters 25 to 98 ([CETA Article 3.9](#)). New Zealand allows 10% of FOB value outside textiles, 10% by weight or value for textiles, and just 1% for wholly obtained goods ([NZ Article 3.8](#)). Australia allows 10% of customs value, or 10% of total weight for textiles in chapters 50 to 63 ([ABF guide, 7.4](#)).

Two limits catch buyers out. Tolerance rescues a failed tariff shift, but it never rescues a failed value test. And the forgiven material still counts as imported when you run the formula (CETA 3.9(2), NZ 3.8(3)). So a Chinese zip on an Indian bag can be forgiven for the heading change and still drag the value share down.

5. What Counts as Local

Accumulation lets materials from the partner country count as local. All three agreements do it both ways - Australian inputs in an Indian good count as Indian for Australia, British inputs for the UK, New Zealand inputs for New Zealand (CETA 3.8, NZ 3.4, ABF guide 7.2). The ABF's own example is

Australian metal buttons on a shirt sewn in India. Only the two parties count, though. Fabric from China, Bangladesh or Vietnam is never local under any Indian agreement we've read, whatever it saves on the price.

A second rule quietly helps Indian factories. When imported material is processed in India, the value of that processing can count as local (CETA Article 3.6(2), NZ Article 3.6(3)). Imported greige fabric dyed and printed in Surat brings its dyeing and printing cost across to the local side of the formula, and that can be the difference between 43% and 46%.

6. Work That Never Confers Origin, and Routes That Lose It

Some work is too light to count, however many people do it. The UK and NZ lists overlap closely ([CETA Article 3.7](#) · [NZ Article 3.7](#)) – packing and repacking, labelling and printing logos, attaching straps, beads or eyelets and pressing textiles, simple painting and polishing, simple assembly of parts into a complete article, sorting, grading and simple cutting or mixing. "Simple" means it needs no special skills and no machines built for the job. The UK list adds a pointed one – any practice shown to be designed to get round the rules.

Origin can also be lost on the way. A good passing through a third country keeps its origin only if it stays under customs control there and isn't worked on beyond unloading, splitting, storing, labelling or preserving (CETA Article 3.14). Which brings us back to Karnataka. The exporter "assumed the benefit travelled with the trade route, when it genuinely depends on where the goods were substantively produced or transformed" ([LinkedIn, 2026](#)). A hub is a place goods pass through. It isn't a source of origin.

7. The Garment Trap

India has an edge here that most garment countries don't. It grows its own cotton, about 5.49 million tonnes in the 2023/24 crop (Textile Exchange Materials Market Report 2025, via our competitiveness study), and a Tiruppur T-shirt knitted from Indian yarn is Indian from fibre to hem. That shirt clears every rule in this guide with room to spare.

The trap is imported fabric. One UK importer warned others in June 2026 to "be careful as SOME manufacturers input Chinese cotton to fabricate with!" ([r/smallbusinessuk, 2026](#)). Here's why it bites. Under a heading-change rule, knitted fabric (chapter 60) becomes a T-shirt (6109), so the tariff shift passes even when every metre came from abroad. The value test then decides, and since fabric is the biggest cost in a basic tee, a shirt sewn in India from expensive imported fabric can fail on value while every stitch was Indian.

Some rules are stricter still. The UK's DCTS scheme, which India can still use alongside the agreement until July 2028, requires "knitting and making-up (including cutting)" in India for cut-and-sewn knitwear ([UK tariff, DCTS rule set](#)). A tee from imported fabric fails DCTS outright, whatever the value share. Same shirt, same border, two answers.

So ask where the yarn and fabric are made, before the price is agreed, and write the answer into the PO. It isn't an accusation. Plenty of good factories buy fabric abroad for a finish or a price, and a trader selling you a maker's shirts is a normal business. You just need the maker's bill of materials behind the claim.



8. The Risk Lands on You

Preference is checked after clearance, and when it falls away the duty comes back to the importer. In Australia, if the preference doesn't apply "the general rate of duty is payable on the goods", with any short-paid GST, and an offence under the Customs Act may have been committed. A certificate that states the origin criterion protects you from the offence, unless other information told you it was wrong, and if you learn later that the goods didn't qualify you must amend the entry and pay "as soon as practicable" ([ABF guide, 8.9](#)).

New Zealand can deny the claim if the goods don't qualify, or if anyone in the chain fails to answer a written request, and a supplier who won't consent to a verification visit within 30 days can cost you the preference on that ground alone ([NZ Articles 3.25 and 3.26](#)). The UK follows the same pattern with a two-year verification window ([CETA Articles 3.19 and 3.25](#)).

So the real control is in your contract. Put three things in the PO – the origin criterion the supplier is claiming, a list of imported inputs with their origin, and a promise to answer a customs request for records within the agreement's time limit. A supplier who won't sign that is telling you something about the claim.

Ready to act

Need hands-on help?

Collecting an input-origin declaration and a cost sheet from the maker for every order, and checking them against the rule before the goods sail, is execution work. SourcingSync does it at the Indian end.

Talk to SourcingSync ↗

9. One Indian T-Shirt Into the UK and Australia

Take a cotton T-shirt, HS 6109.10, from a Tiruppur maker, with the rules read on 25 September 2026. The UK rule for chapter 61 is CTH and Standard QVC ([Annex 3A](#)). Australia doesn't list the line in Annex 4B, so its General Rule applies – CTH and 45% build-down or 35% build-up (the [FTA Portal](#) shows 6109.10.00 as "DEFAULT"). Both give 0% with proof.

If the maker knits Indian yarn and sews it in Tiruppur, nothing needs to shift and the shirt qualifies in both markets. If it buys imported knitted fabric and cuts and sews it, the shift passes in both, and the value test decides. At 45% build-down, imported materials can be at most 55% of the FOB value.

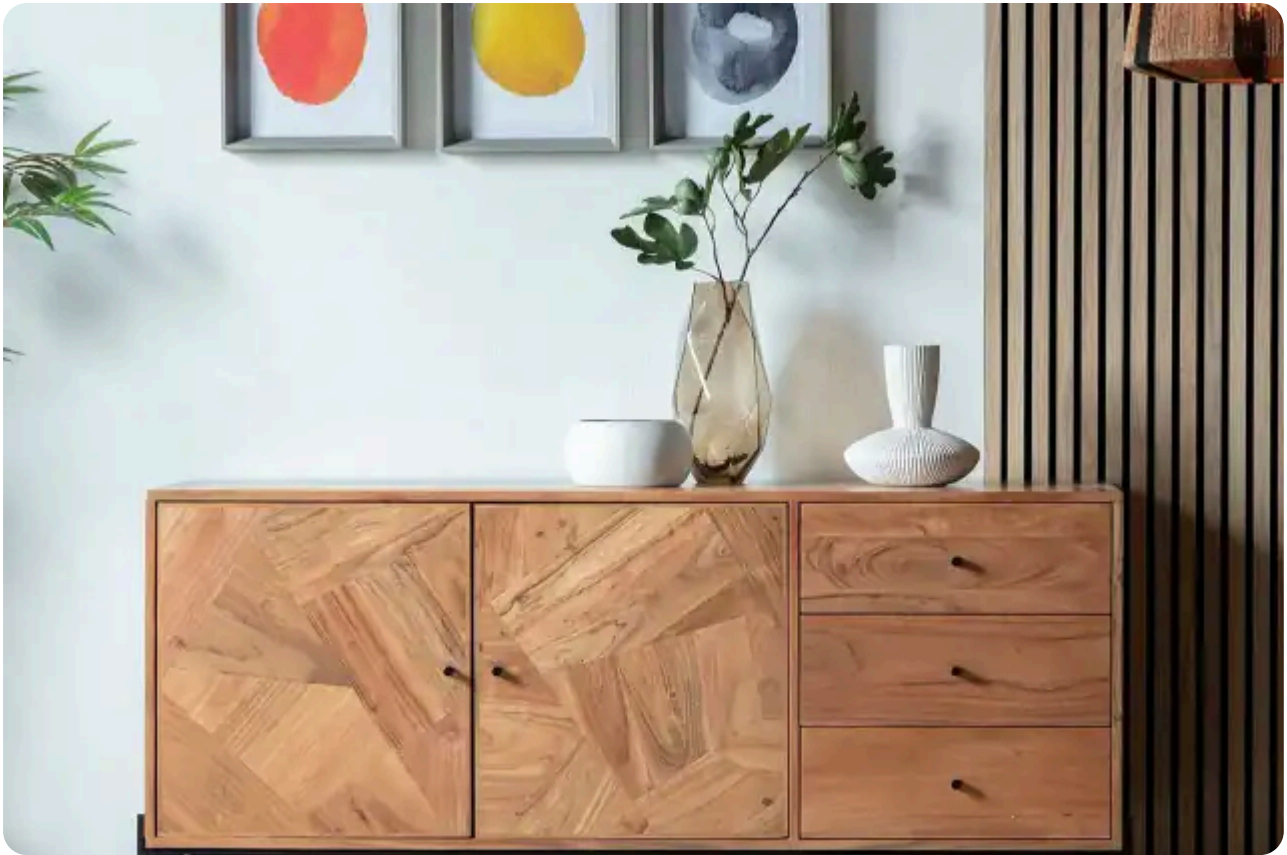
India's average FOB price per cotton T-shirt in FY2025–26 was US\$2.71 to the UK and US\$2.03 to Australia (our arithmetic on DoC TradeStat, official unit values). As an illustrative ceiling on those averages, imported fabric and trims would have to stay under about US\$1.49 a shirt for the UK and US\$1.12 for Australia, landed at the factory. Your own shirt will differ, so run it on your own cost sheet.

And if the "maker" imports blank T-shirts and prints them, it's heading 6109 in and 6109 out, and printing a logo is on the list of work that never counts. That shirt fails in both markets, and in New Zealand too. The imported-fabric version is the one that catches people, because nothing about a factory visit looks wrong. The full landed-cost maths is in [working out the real import duty](#).

10. One Wooden Sideboard Into New Zealand

Take a mango-wood sideboard, HS 9403.60. New Zealand's rate was 5% until 19 October 2026 and is 0% with origin proof from 20 October ([India to New Zealand](#)). The rule is CTS and QVC 45% build-down or 35% build-up, and parts of wooden furniture (9403.91) have their own rule ([NZ Annex 3A](#)).

Made from Indian timber in a Jodhpur or Saharanpur workshop, the wood is wholly obtained, imported hinges change subheading easily, and the sideboard qualifies comfortably. Made from imported sawn timber, the shift from chapter 44 passes and the value test usually does too, because on a hand-finished piece labour is most of the price. But assembled from imported flat-pack parts, it fails – simple assembly is a minimal operation, and parts that are most of the value sink the 45% as well.



The same flat-pack parts fail the UK even faster. The UK rule for chapter 94 is CTH and Standard QVC, and 9403.91 and 9403.60 share heading 9403, so there's no heading change at all. Australia treats 9403.60 under its General Rule, like New Zealand ([FTA Portal](#)). Same workshop, three markets, and it can pass two and fail one.

11. Where Each Market Stands, as of 25 September 2026

Australia's ECTA has been in force since 29 December 2022, with apparel and wooden furniture both on the General Rule, 10% tolerance and two-way accumulation. New Zealand's FTA entered into force on 20 October 2026, with apparel on CTH and 40% QVC and furniture on CTSH and 45%. The UK's CETA has applied since 15 July 2026, with both on CTH and Standard QVC, 12.5% tolerance, and DCTS still available as a stricter alternative.

Market	Agreement and date	Apparel rule	Wooden furniture rule	To
Australia	ECTA, in force 29 Dec 2022	General Rule	General Rule	10
New Zealand	FTA, from 20 Oct 2026	CTH and 40% QVC	CTSH and 45%	10 wh ok
United Kingdom	CETA, applied 15 Jul 2026	CTH and Standard QVC	CTH and Standard QVC	12

The EU has no FTA with India in force, and we haven't read the concluded agreement's product rules yet, see [India to the EU](#). The UAE's CEPA uses a 40% value-addition test as its general rule, which we've only been able to confirm through secondary sources ([India's trade agreements](#)). The US has no agreement with India, so there's no preferential rule to meet.

Re-check dates - 19 November 2026 for New Zealand's Indian issuing bodies, the EU-India signature whenever it comes, 1 January 2028 when HS 2028 arrives and annexes get transposed, and 14 July 2028 when India's UK DCTS transition ends.

SourcingFrom Intelligence

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- 01 **A hub route doesn't carry origin.** An Indian exporter routed goods through a UAE hub expecting CEPA rates, and customs denied them entirely on post-clearance review, months after the goods had cleared. ([LinkedIn](#), [United Law Chambers](#), Aug 2026.)
- 02 **Imported fabric is the hidden failure in Indian garments.** Buyers warn that some makers use Chinese cotton, and under the UK's DCTS a tee from imported fabric fails outright, while under CETA it has to pass on value. ([r/smallbusinessuk](#),

UK importer, Jun 2026, UK tariff rules of origin, 6109.) [Verified rule, Reported practice]

03 The imported-fabric ceiling per shirt, by market. On India's own FY2025-26 average FOB prices, imported fabric and trims must stay under about US\$1.49 a cotton tee for the UK and US\$1.12 for Australia to pass a 45% build-down test. (*DoC TradeStat, our arithmetic.*)

04 Flat-pack furniture passes on paper and fails in law. Parts to finished furniture changes subheading, but simple assembly is excluded in the UK and NZ texts, and the UK's heading rule isn't met at all. (*CETA Art. 3.7, NZ Annex 3A.*)

What we don't know yet

- ☐ The EU-India agreement's product rules for garments and furniture. We'll read the annex when it's signed.
- ☐ Whether any ECTA Annex 4B entries have been moved to HS 2022 in a way that changes a rule.
- ☐ How often origin claims on Indian goods fail at verification in each market. Nobody publishes it.

11 / Decide here

- 1 Find your line's rule in the annex, in the annex's own HS edition.
- 2 Ask where yarn, fabric and parts come from before you agree the price.
- 3 Put the origin criterion, the input list and a records clause in the PO.

Questions Buyers Ask

My supplier says the goods are Indian because they were made in its factory. Is that enough?



No. The factory makes the product, and the annex decides whether it's originating. That turns on where the materials came from and what was done to

them.

Does de minimis let me use 10% of anything? 

Can I check the rule myself before I order? 

If a claim fails years later, can I go after the supplier? 

12. Back to Karnataka

The law firm's closing question to its readers was a good one – "has anyone actually audited your rules of origin paperwork or only your shipping route" ([LinkedIn, 2026](#)). That exporter found out months after the goods moved, which is when every failed origin claim gets found. You can find out before, with one annex and one honest bill of materials.

Then prove it with the right paper, covered in [certificate of origin](#). Your market's full rules are on the pages for [Australia](#), [New Zealand](#), [the UK](#), [the EU](#), [the UAE](#) and [the US](#). Run the order with and without the preference in the [landed cost calculator](#), because the gap is what getting origin right is worth. Related guides: [FTA duty phase-downs](#), [duty refunds](#), [made in India with Chinese inputs](#).