



## **Bahrain-United States Free Trade Agreement**

### **Trade in Goods**

The Bahrain-US Free Trade Agreement (FTA) expands the market for Bahrain goods by providing greater access to the U.S. market, the largest and fastest growing in the world, through the elimination of tariff and non-tariff barriers and the attainment of National/Most Favored Nation Treatment. The Bahrain-US Free Trade Agreement will achieve immediate extensive liberalization in bilateral trade with respect to a wide range of industrial and agricultural products of both countries.

### **National Treatment and Market Access for Goods**

The Market Access Chapter of the FTA sets out the principle rules governing trade in goods. It requires both the Kingdom of Bahrain and the United States to treat each others' goods in a non-discriminatory manner, provides for the elimination of tariffs on "originating goods," as defined in the Rules of Origin Chapter, and requires the elimination of various non-tariff barriers that distorts trade flows.

### **Tariff Elimination**

The Agreement provides for the elimination of all customs duties on originating goods no later than 10 years following the entry of the FTA into force. The Agreement is comprehensive and covers all tariff lines.

Upon entry into force of the Agreement, 96% of Bahrain industrial and agricultural products will gain duty-free access to the United States markets. Tariffs on the remaining products, which are not currently produced in Bahrain, will be phased-out according to the following staging categories:

- Category A: Immediate duty-free access (96% of industrial and agricultural products).
- Category B: Duties will be eliminated in 10 equal annual stages (1% of industrial and agricultural products).
- Category C: Goods that are already duty free and will continue to receive duty-free treatment.
- Category D: Duties will be eliminated in 5 equal annual stages. (3% of industrial and agricultural products).

Bahrain will provide immediate duty-free access on all U.S. industrial and agricultural products, except 80 products of which the duties will be phased-out over 10 years.<sup>1</sup>

### **Restrictions and Fees**

The FTA prohibits import and export restrictions including price requirements, performance requirements, and restraints inconsistent with the General Agreement on Tariffs and Trade (GATT). The United States has also agreed to eliminate its merchandise processing fees on imports of Bahrain originating goods.

### **Rules of Origin**

The FTA incorporates specific rules of origin provisions in order to determine whether or not a good is can be considered “originating in the territory of the Kingdom of Bahrain or the United States” and therefore qualify for preferential tariff treatment, i.e. duty-free access, under the FTA.<sup>2</sup>

Rules of origin ensure that the benefits of the FTA are properly accorded to goods manufactured in Bahrain, and prevents “free riders” from illegally benefiting from the Agreement through transshipment.

### **Qualifying for Preferential Treatment:**

The good can qualify for preferential treatment under the FTA if:

1. the good is wholly grown, produced, or manufactured in the Kingdom of Bahrain or the United States, or both; or
2. the good is imported and transformed into a “new or different article of commerce” and:

(Sum of the value of material produced in one or both countries + Direct cost)  $\geq$  35%

The Rules of Origin Chapter defines a “new or different article of commerce” as a good that has been substantially transformed from a good or material that is not wholly the growth, product, or manufacture of one or both Parties and that has a new name, character, or use distinct from the good or material from which it was transformed.

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<sup>1</sup> The detailed tariff lines for Bahrain and the United States are listed in the Tariff Schedules available on the FTA website [www.fta.gov.bh](http://www.fta.gov.bh)

<sup>2</sup> The Rules of Origin Chapter of the FTA covers all traded goods with the exception of textiles and apparel, which are dealt with under a separate chapter.

### **Formula for Calculating the Value Added:**

$$[(\text{VOM} + \text{DCP}) / \text{AV}] \times 100 \geq 35\%$$

Where:

**VOM** = Value of Originating Materials

**DCP** = Direct Cost of Processing

**AV** = Appraised Value (Invoice value)

### **Value of Originating Materials (VOM)**

This value may include the following:

1. Price actually paid or payable
2. Freight, insurance, packing, and all transportation cost (not otherwise included in the price actually paid or payable)
3. Cost of waste or spoilage of materials, less the value of recoverable scrap
4. Taxes and/or duties imposed on the materials by either Party provided they are not remitted upon exportation

### **Direct Cost of Processing (DCP)**

The Direct cost of processing includes costs directly incurred in, or that can be allocated to, the growth, production, or manufacture of the good, such as:

1. Actual labor costs involved in the growth, production, or manufacture of the good, including fringe benefits, on-the-job training, and cost of engineering, supervisory, quality control, and similar personnel
2. Dies, mold, tooling, indirect materials, and depreciation on machinery and equipment that can be allocated to the specific good
3. Research, development, design, engineering, and blueprint costs that can be allocated to the specific good
4. Costs of inspecting and testing the specific good
5. Cost of packaging the specific good for shipment to the other Party

### **Declaration of Origin**

The Agreement provides that a declaration of origin may be requested only when either the Bahrain or U.S. authorities has a reason to question the accuracy of a claim of origin or when one of them is conducting a random verification. Upon such request, importers who wish to claim preferential tariff treatment for particular goods must submit a declaration providing all relevant information concerning the production of the good. Authorities may only deny preferential treatment in writing and must provide legal and factual findings.

### **Customs Administration**

The Customs Administration Chapter of the FTA establishes rules that are designed to facilitate the flow of bilateral trade through increased transparency, predictability, and efficiency in customs procedures.

The Agreement stipulates that the customs authorities must promptly publish customs measures and regulations and provide written advance rulings, upon request to its importers and to exporters of the other party regarding whether a good qualifies as an “originating good” as well as other customs matters. They must also guarantee importers access to both administrative and judicial review of customs decisions. The Agreement allows the Kingdom of Bahrain a transition period of up to two years to comply with the advance ruling procedures.

### **Customs Cooperation**

The FTA promotes enhanced customs cooperation between the Kingdom of Bahrain and the United States. It encourages providing advance notice of customs developments likely to affect the Agreement, and calls for cooperation in securing compliance with each other’s customs measures related to the Agreement and to import and export restrictions. It includes specific provisions requiring the relevant authorities to share customs information where there is reasonable suspicion of unlawful activity in connection with bilaterally traded goods.