May 27, 2025

Rules of Origin in the Trade and Cooperation Agreement between EU and UK

BASF welcomes the stipulations regarding product-specific rules of origin (PSR) for electric accumulators and electrified vehicles in the Trade and Cooperation Agreement (TCA, Annex 3) aiming to establishing a full battery value chain in Europe and UK. This is in support of Europe striving for more resilience, less dependence on non-EU countries and overall greater autonomy.

To phase-in the final product-specific rules of origin (PSR) entering into force on 1 January 2027, interim rules are defined (Annex 5). With decision No 1/2023 of the Partnership Council established by the TCA dated 21 December 2023 those transitional PSR were revised, basically lifting the tightening of the rules in 2024 and extending the less strict initial PSR version until the end of 2026. At the same time, it was agreed that no further postponement of the incoming rules should be considered and the possibility for further changes to the PSR removed until 1 January 2032. This should provide clarity and predictability to all industry players.

Despite clear statements by the upstream players that production capacity build-up (especially for cathode active material, CAM) follows demand, only very little – if any – action by downstream players has been taken that would lead to capacity increase in the value chain. This contributes to the overall situation that is very similar to the one in 2023, i.e. OEMs face difficulties to comply with the PSR in 2027.

Failure to comply with the PSR eventually results in an import tariff of 10 % on the total price of electrified vehicles upon trade between EU and UK.

Our Key Messages

- Design incentives and market-pull mechanisms for the buildup of a competitive, integrated European e-mobility/battery value chain featuring all possible production steps including recycling.
- Reduce dependencies in strategic value chains by maintaining requirements for – partial – local manufacturing in Europe/UK.
- Establish clarity for the PSR to remove barriers for industry to build up European battery value chain.
- Allow for the inclusion of up to 35 % of non-originating CAM into the cathode manufacturing. We propose to limit the use of non-originating material to ensure that the majority is based on EU-manufactured CAM.
- Do not delay implementation of the PSR after 2027 to enable economic viability of existing CAM investments in Europe.

Background

The establishment of a competitive, integrated European e-mobility/battery value chain featuring all possible production steps including recycling faces strong headwinds from Asian countries where this industry has grown for decades, partially based on heavy subsidies. Incentives in support of the build-up in Europe are needed. On that background, requirements for – partial – local manufacturing in Europe/UK are an effective tool that could more widely be used, also outside of the TCA scope to reach the goal of reducing dependencies in strategic value chains.

Annex 3 of the TCA lists the product-specific rules of origin (PSR) sorted by tariff codes, following the Harmonised System classification of 2017. For electrified vehicles under tariff headings 87.02-87.04, the PSR are defined as:

> "MaxNOM 45 % (EXW) and battery packs of heading 85.07 of a kind used as the primary source of electrical power for propulsion of the vehicle must be originating".

In order to benefit from the free trade between EU and UK and avoid tariff on exported electrified vehicles, the battery packs must be originating. Those are listed under heading 85.07, and the corresponding PSR are defined as:

> "CTH [Change in Tariff Heading] except from non-originating active cathode materials; or MaxNOM 30 % (EXW)".

For battery cells under the same heading the PSR are very similarly defined as:

> "CTH except from non-originating active cathode materials; or MaxNOM 35 % (EXW)".

So, either the CTH rule or the value-based MaxNOM rule must be fulfilled to yield an originating battery cell/pack:

- CTH except from non-originating active cathode materials
  A change in tariff heading (CTH) is clearly achieved when manufacturing a battery cell/pack based on a range of starting materials that are listed in different headings. This specific rule has the addition though that the active cathode materials (= cathode active materials, CAM) itself must be originating.

- MaxNOM rule
  Given the high share of CAM cost compared to the overall battery cell/pack cost, it is not possible to fulfill this rule if the CAM itself is not originating. This is even more so true as many other materials needed to manufacture the cell/pack are usually imported from non-EU/UK countries. As a consequence, this rule also implies that CAM must be originating.

Determination of origin

General

In November 2024 the Commission published a draft guidance document "Guidance on the Rules of Origin for Active Cathode Materials (CAM) applicable as from 1 January 2027 under the Trade and Cooperation Agreement (TCA)". The purpose of this document is to provide guidance on the interpretation of the PSR and make clear how to obtain origin for CAM products.

The fundamental importance is in the definition of "CAM" in the Draft Guidance Document:

> "9. For the purpose of this rule of origin, CAM is defined as follows: Active cathode materials (CAM) of rechargeable batteries are chemical materials and their derivatives, which have reached the stage at which they can react chemically to produce electric energy when the battery cell is discharged and that are used for the coating on a metal foil to form the cathode, which is the positive electrode in the battery cell."

This definition of CAM as “chemical materials and their derivatives” means that “CAM” does not only refer to the active material powder, but includes all CAM derivatives, which are “used in the production of the cathode” and “coated on metal foils to form the cathode”, i.e., including all CAM modifications after the main calcination, e.g., second calcination, washing, coating and the slurry which is prepared for the coating process.

Because of the broad definition of CAM, the absorption rule cannot be applied for single steps between the CAM calcination and the start of the coating process. However, origin rules can be applied to CAM (i.e., to “CAM and its derivatives”). For the slurry the rules of heading 38.24 (outlined above) can be applied, including “MaxNOM 50 % (EXW)”. **This allows for the inclusion of non-originating CAM in the battery cell production while still manufacturing originating battery cells.**

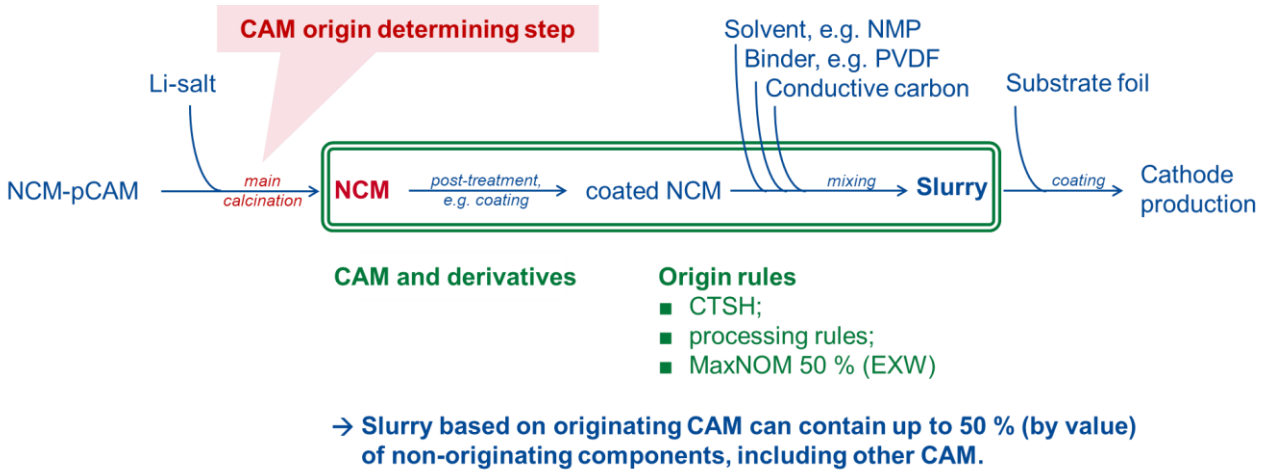

Illustration of the CAM definition as CAM and derivatives, including the CAM powder after main calcination, all following products resulting from post-treatment operations like coating, and the Slurry made based on this CAM powder.

The use of the “Mixing and Blending” rule is excluded for the mixing of various CAM products:

> “17. […] In particular, the “mixing and blending” of different CAMs imported from third countries, does not confer origin in accordance with the Note 5(f) of Annex 2 to the TCA. Indeed, the CAM resulting from this process would remain a CAM, as defined above.”

Recommendation based on the Draft Guidance Document

A limited amount of non-originating CAM must be allowed so that the resulting product is still originating. Following the interpretation of the TCA Draft Guidance Document, this is possible: The slurry that is prepared to coat the cathode tape is originating if the MaxNOM 50 % (EXW) rule is fulfilled. The slurry is a mixture of various compounds, like active cathode material powder, conductive carbon, binder and solvent.

BASF recommends to apply this definition as initially planned starting in 2027 at least for oxide-based cathode active materials like NCM, NCA or NCMA.

Conclusions:

BASF is amongst the frontrunners to establish an industrial scale full battery value chain in Europe, mainly driven by the demands of electromobility. BASF is a founding member and active participant of the first IPCEI

project in this field, IPCEI on Batteries. Industrial scale production plants for PCAM and CAM have been erected with the clear goal to expand these plants to meet the growing demand of the electromobility sector and other sectors that are transformed and increasingly electrified.

BASF welcomes any support to create an EU/UK based value chain for batteries, including active materials production and recycling. Partial local origin requirements help create demand in EU/UK and build-up production capacities for those products. This way it is possible to reduce dependency from non-EU/UK countries while still allowing partial introduction of non-originating materials into the market. The definition of CAM as “chemical materials and their derivatives” in the Draft Guidance Document allows for this flexibility.

To safeguard the establishment of a full battery value chain, especially the active material steps, a partial allowance of non-originating materials in originating CAM products must be permitted. To allow for 100 % non-originating products will prohibit the establishment of a new domestic value chain, and a strict exclusion of non-originating material does not enable a build-up of new production capacities either. A partial inclusion of non-originating materials into an originating product is a reasonable compromise to foster trade and technology exchange with other regions while contributing to the overall goal of becoming more resilient and independent from non-EU/UK countries. As the European battery materials industry matures and can compete at eye-level, these PSR framework conditions may undergo a review.

About BASF
At BASF, we create chemistry for a sustainable future. We combine economic success with environmental protection and social responsibility. Around 112,000 employees in the BASF Group contribute to the success of our customers in nearly all sectors and almost every country in the world. Our portfolio comprises six segments: Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care and Agricultural Solutions. BASF generated sales of €68.9 billion in 2023. BASF shares are traded on the stock exchange in Frankfurt (BAS) and as American Depositary Receipts (BASFY) in the United States. Further information at www.basf.com.

About BASF Battery Materials
BASF is a leading global supplier of advanced cathode active materials (CAM) for the lithium-ion batteries market, providing high-performance CAM to the world’s largest cell producers and for leading OEM platforms. We complement our portfolio with base metals sourcing and management, as well as various battery recycling solutions, including closed loop offerings. By leveraging our industry-leading R&D platforms and passion for innovation, BASF Battery Materials develops unique, proprietary solutions that drive customer success. Further information is available on the internet at www.battery-materials.basf.com