



**United Nations Conference on
Trade and Development**

Division for Africa, Least Developed Countries
and Special Programmes (ALDC)



Lunch Seminar
The Use of the EU's Free Trade Agreements
***Moving to the next step: Linking Low
Utilization of EU FTAs to stringent RoO***

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The conclusion of the Study: where do we go from here ?

- EU Industry and exporters use the EU free trade agreements to **60 percent**
- EU partners industries and exporters use the free trade agreements to **90 percent**
- The under-utilization of the EU free trade agreements represents a loss of **EUR 72 billion** for EU exporters
- The utilization of the EU free trade agreements is relatively low (60-30 percent) for EU exporters in certain markets – what are the reasons?
- Certain sectors and certain FTAs are more under-utilized than others
- Important to identify pockets of under-utilization at sector level and FTA level – and the possible correlation to cumbersome **rules of origin**



The mechanics of data on Utilization Rates

- Covered goods at the time of customs clearance are granted preferential treatment only if they comply with RoO administrative requirements i.e. **CO or exporter declaration of origin, REX**
- Failure to show such documentary evidence entails collection of MFN duties = non-utilization of trade preferences
- What are the reasons for not complying ?
 1. **CO or exporter declarations** are issued upon compliance with RoO requirements. If RoO is stringent there is no CO or exporter declaration = **Evidence from analysis of UR and counterfactuals from firms**
 2. **Administrative requirements and direct shipment**
 3. **Preferential margin too low ?** **Depends on products and largely anecdotal** - See Trump and NAFTA RoO - Preferential margin is 2,5%
 4. **Ignorance ?** **Why EU exporters would know better some FTAs than others ?**

Asymmetric UR: The case of Switzerland, Mexico and South Korea

Switzerland

- UR of EU imports from Switzerland constantly above 90% and significantly lower utilization for EU exporters: 66% to 70%.

Mexico

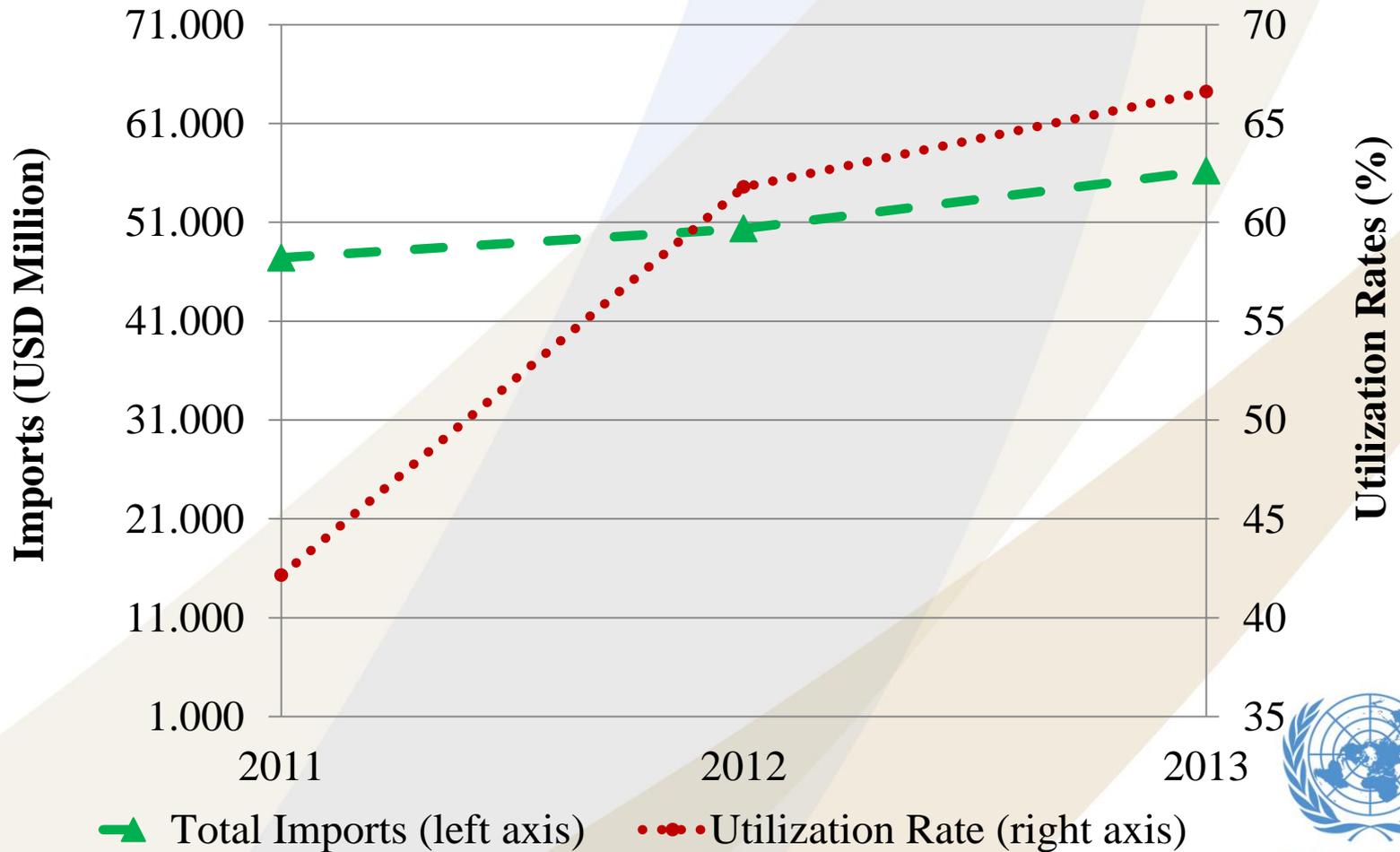
- Mexico imports from the EU, show high fluctuations and quite low utilization rates ranging from 50% to 38%.

South Korea

- Between 2011 and 2013, utilization rates of EU imports from Korea increased from 59% to 82.4%.
- Utilization rates of Korea imports from the EU increased from 42% to 67 % over the same period



Korean Imports from EU



Link between low utilization and rules of origin: The case of South Korea

Direct transport

(excerpts from *Evaluation of the Implementation of the Free Trade Agreement between the EU and its Member States and the Republic of Korea Interim Technical Report Part 1: Synthesis Report* - http://trade.ec.europa.eu/doclib/docs/2017/june/tradoc_155673.pdf)

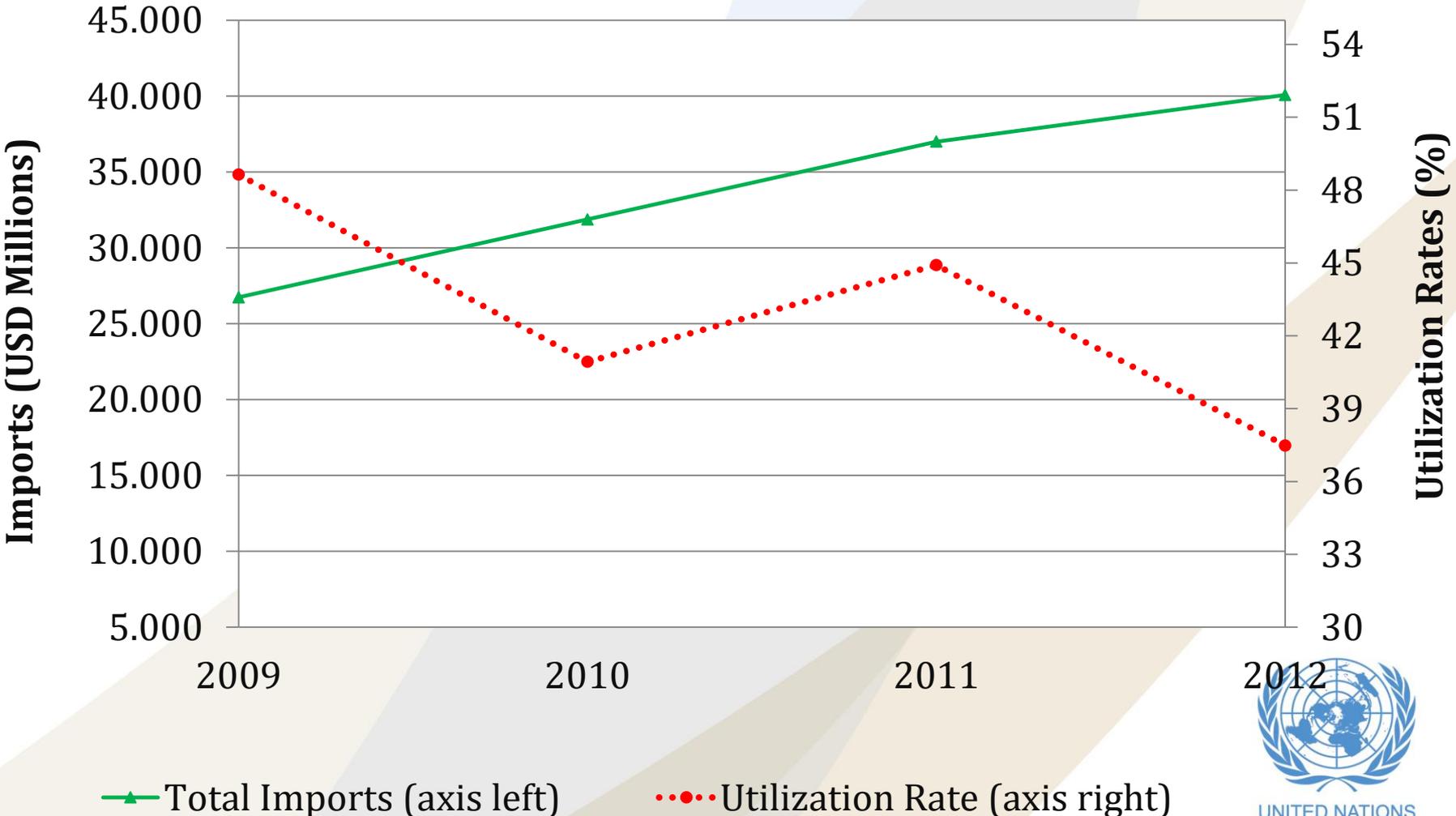
- The EU-Korea Protocol on RoO states that products must be **transported directly** between the EU to Korea and vice versa in order to benefit from the tariff preferences of the FTA.
- Exporters must provide customs authorities in the destination country with evidence verifying that the direct transport provision has been satisfied,
- e.g. in the form of a certificate issued by the customs authorities in the country of transit that provides an exact description of the products, the dates of unloading/reloading and where applicable, the names of the ships or the other means of transport use, and the conditions under which the products remained in the country of transit.

Link between low utilization and rules of origin: The case of South Korea

Direct transport

- *The interviews [...] confirmed the widely held view that the current wording of direct shipment in the EU-Korea FTA is problematic :*
 - *This provision particularly affects EU exporters who make use of logistical hubs (mostly Singapore) for storage and operations such as repackaging and labelling prior to distributing their products to various Asian markets. [...]*
 - *In order to benefit from the preferential tariffs of the FTA, some companies have chosen to ship goods directly from the EU to Korea. However, in these cases, companies cannot react swiftly to demand fluctuations, as shipping from the EU to Korea can take well over a month.*
- Discussions are underway among EU-Korea FTA to address the challenge

Mexican imports from Europe and Utilization Rate



—▲— Total Imports (axis left) ···· Utilization Rate (axis right)

Product specific RoO (PSROs) in EU-Mexico FTA

- The application of the methodology to identify the PSROs that are responsible for pockets of low utilization identified the PSROs in the automotive sector as the the major culprits for low utilization
- In fact The original EU-Mexico FTA provided for stringent rules of origin in the automotive sector
- During negotiations of the revised EU-Mexico FTA the PSROs for the automotive sector have been modified.

Methodology to link PSROs to Utilization Rates (UR)

1. Filtering the data to identify critical products

- Keep if low UR (<70%), relevant preference margin (PM>2pp) at the HS 4 digit-level, on average
- Critical product if trade values are relatively high (covered imports).
- Matching critical products with PSRO.

2. Identification of *Repeated Offenders* : Products that are showing low utilization in different FTAs and/or under different direction of trade.

- a. Repeated Offenders across agreement: critical products in one direction of trade, across a certain number of FTA partners
- b. Bilateral Repeated Offenders: critical products in both direction of trade for a given agreement.

3. Matching bilateral repeated offenders with PSRO

4. Bilateral & cross-agreements Repeated Offenders analysis

→ *PSRO of Repeated Offenders are candidates for reform*



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Step 4. Bilateral and cross-agreements repeated offenders

HS	Description	Dyad	Imports (\$000)	Av. PM	Av. UR	EUN imports Ranks	EUN imports	Part Imports Ranks	Part Imports
8708	Parts and accessories of motor vehicles of 87.01-87.05	DZA	46'837	3.4	29.9	MEX1; LBN2; PAN3; ISL3; CHL4; DZA11; PER14; NIC14	202'61	CHE1; HRV1; MEX1; MAR4; KOR4; EGY7; 6DZA9	4'654'589
8703	Motor cars and oth. motor vehicles (passengers)	EGY	337'202	10.2	39.7	MNE1; PAN2; EGY3; ALB4; NOR4; CHE5; BIH6; DZA8; CHL9; LBN11; NIC13; PER13; TUN14	107'28	6KOR1; MEX2; EGY3	4'691'169
3808	Insecticides, rodenticides	EGY	48'996	5.2	56.2	TUR8; EGY9; SER9	6'374	HRV2; SER3; TUR4	284'545
8408	Compression-ignition, combustion piston engines	EGY	38'881	2.6	8.1	MEX5; LBN9; MAR19	41'873	MEX6; HRV6	332'796
4202	Trunks, suit-cases...; handbags... of leather	KOR	894'308	5.1	21.7	LBN4; PAN8; MKD9; PER12; KOR13	1'373	ISL4; CHE5; KOR7; MNE13	1'322'367
8408	Compression-ignition, combustion piston engines	MAR	116'889	5.2	17.4	MEX5; LBN9; MAR19	41'873	MEX6; HRV6	332'796
8708	Parts and accessories of motor vehicles of 87.01-87.05	MEX	2'111'191	3.2	28.9	MEX1; LBN2; PAN3; ISL3; CHL4; DZA11; PER14; NIC14	202'61	CHE1; HRV1; MEX1; MAR4; KOR4; EGY7; 6DZA9	4'654'589
8408	Compression-ignition, combustion piston engines	MEX	354'868	2.9	18.4	MEX5; LBN9; MAR19	41'873	MEX6; HRV6	332'796
8481	Tapes, valves, for pipes pressure reducing	MEX	343'987	2.4	28.9	MNE6; DZA6; MEX7; CHL8; ISL8; PER19	33'919	EGY6; MEX7; KOR8	1'305'766
3926	Oth. articles of plastics, nes	MEX	286'569	7.0	23.3	KOR4; NOR5; ALB5; MEX6; ISL13; CHL16	90'156	ALB8; MNE10; MEX12; MKD19; MAR20	8'735

Conclusion – Selected Candidates for Reform

HS	Description	Dyad	RoO
8708	Parts and accessories of motor vehicles of 87.01-87.05	DZA	Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product
8703	Motor cars and oth. motor vehicles (passengers)	EGY	Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product
3808	Insecticides, rodenticides	EGY	Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the products
8408	Compression-ignition, combustion piston engines	EGY	Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product
4202	Trunks, suit-cases...; handbags... of leather	KOR	Manufacture from materials of any heading, except that of the product
8408	Compression-ignition, combustion piston engines	MAR	Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product
8708	Parts and accessories of motor vehicles of 87.01-87.05	MEX	Manufacture in which all the materials used are classified within a heading other than that of the product, except for materials of headings 5806 and 6307 and Chapter 73 or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product
8408	Compression-ignition, combustion piston engines	MEX	Manufacture in which the value of all the materials used does not exceed 60 % of the ex-works price of the product
8481	Tapes, valves, for pipes pressure reducing	MEX	Manufacture in which all the materials used are classified within a heading other than that of the product
3926	Oth. articles of plastics, nes	MEX	Manufacture in which the value of all the materials used does not exceed 50% of the ex- works price of the product

Forthcoming work on Utilization Rates and Rules of Origin in 2019

UNCTAD – Swedish Board of Trade Joint publication linking utilization rates and rules of origin (Part II of the report).

Additional work:

- Verifying data results by contacting firms
- Devise alternative PRSOs drawn from best practices
- Identify critical bottlenecks on administration of RoO in Partner countries that may explain asymmetrical UR

Thank you for your attention

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