



Virtual Workshop on data analytics approach and
Preferential Rules of Origin

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Why Building an integrated database on trade preferences utilization ?

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What Utilization rates are ?

- The concept of utilization of trade preferences was first conceived in UNCTAD in 1974
- A Mandate was provided to UNCTAD since 1974 to monitor utilization of trade preferences, especially by LDCs
- The formula to calculate Utilization rates used by UNCTAD and recently by WTO is as follows:

$$\text{Utilization Rate} = 100 \times \frac{\textit{Imports receiving preferential treatment}}{\textit{Covered imports}}$$

Utilization rates (URs) are public goods given the proliferation of Free Trade Areas

- Governments are increasingly entering FTAs and mega-regionals to secure market access for their firms.
- Utilization rates should be used to monitor whether firms are using these FTAs, especially mega-regionals RCEP such as AfCFTA
- Making publicly available URs responds to multiple legitimate objectives of transparency and accountability
- URs permit a government to monitor the efficiency of FTAs, to record lessons learned and to improve the outcome of negotiations
 - Firms may have direct access to measure how they perform and may interact with Governments requesting reforms
- Curing low utilization rates by introducing policy reforms in the area of rules of origin
 - Stringency/leniency of a given PSRO has to match manufacturing capacity
 - Administrative requirements COs, direct shipment etc etc.

Drivers of Utilization rates: PSROs

Stringency or leniency of PSROs drives URs

- The LDC paper at CRO (2014) prepared with UNCTAD showed that more lenient PSROs introduced by EU and Canada RoO reforms led to higher URs and trade volumes
- In addition to factual evidence, recent studies by Crivelli and Inama (2021) and Crivelli, Inama, and Kasteng (2021) demonstrated such causal link using a regression and a repeated offender methodology.

Drivers of URs: RoO administrative requirements

- As argued by LDCs and in Crivelli, Inama, and Kasteng 2021 and WTO Secretariat, **documentary evidence** related to **direct consignment** are a massive obstacle to URs as well as limitations deriving from:
 - Restrictive allowance of third country/party invoicing
 - Entitlement to issue origin declaration/ certification requirements
 - Suppliers' declarations
 - Accounting segregation
- All in all, it is a firm level decision (Inama & Ghetti 2020)



Myths: Preferential margins (PM) are the drivers of URs

- Profit margins and trade volumes in a specific industry may be much more important than preferential margins. Examples:
 - High profit margins in fashion industry permit to forego significant PM
 - High volumes in USMCA trade on cars make a PM of 2,5% attractive as well as minimal PM in steel products where profit margin are reduced.
- *It is generally assumed that the level of tariff reductions is the main driver of companies' use of free trade agreements. This analysis, however, indicates that the size of the tariff reduction is less significant than the import transaction value (Kasteng, 2020)*
- Overlapping trade preferences: firms are profit maximizers and they use the best combination of preferential margins and RoO (ie. PM are not considered in isolation of RoO)

Challenges and opportunities in using URs

- Low or high URs are like the result of a medical test, they need to be read by professionals to identify the correct diagnosis and their link to RoO taking into account sectors, firms and markets involved.
 - No magic solution.
- Link between URs and RoO offers a merciless picture of the use of a PTA.
 - Denial mode: Governments and trade officials may be wary of recognizing such link.
- Research and literature on RoO have so far largely focused estimating trade-distorting effects of RoO using coding and regressions but paid scarce attention to URs.
 - New research should be actionable, to be used by governments seeking to cooperate on RoO to facilitate trade (Hoekman and Inama, 2018)
 - The updating of annex K of the revised Kyoto convention offers a formidable opportunity

The main features of the UNCTAD website on UR

- The website design rotates around **3 functions**:
 - A. Firms' view:** understand the UR of my product
 - B. Government' view:** how is my country doing ?
 - C. Trade policy/Negotiations view:** Where am I doing good/bad and what can I do to improve?

Research and references

- **UNCTAD website of utilization rates** of trade preferences granted by QUAD countries available at <https://gsp.unctad.org/home>
- **UNCTAD-EUI platform of experts**, researchers, practitioners, government officials and the private sector to discuss developments in the area of RoO and URs on an annual basis (June 2019, February 2020, October 2021)
 - Rules of Origin | Interview Series: <https://globalgovernanceprogramme.eui.eu/rules-of-origin-interview-series/>
 - Trade Facilitation and Rules of Origin: <https://globalgovernanceprogramme.eui.eu/trade-facilitation-and-rules-of-origin/>
- Ongoing cooperation with researchers from the **Asian Development Bank** on studying RoO and URs in the Asian region and especially mega-regionals (CP-TPP and RCEP).
 - Crivelli, P. and S. Inama. 2021. Making RCEP Successful Through Business-friendly Rules of Origin. Asian Development Blog. <https://blogs.adb.org/blog/making-rcep-successful-through-business-friendly-rules-origin.>

Additional resources

- **UNCTAD studies 2021:**
 - “Getting to better rules of origin for LDCs using utilization rates - from the WTO Ministerial decision in Hong Kong (2005) to Bali (2013), Nairobi (2015) and beyond”, Geneva. UNCTAD/ALDC/2019/3, eISBN: 978-92-1-005550-5
 - “Compendium of technical notes prepared for the LDC WTO group on preferential rules of origin” UNCTAD/ALDC/2020/6
- **UNCTAD-COMESA study 2021:** utilization rates of African RECs (forthcoming)
- **Ghetti, PP. and S. Inama, 2020.** The Real Cost of Rules of Origin: A Business Perspective to Discipline Rules of Origin in a Post COVID-19 Scenario, *Global Trade and Customs Journal*, Vol. 15, Issue 10, pp. 479-486, <https://kluwerlawonline.com/journalarticle/Global+Trade+and+Customs+Journal/15.10/GTCJ2020086>
- **Crivelli, P. and S. Inama. 2021.** “Improving market for LDCs: The impact of the EU Reform of Rules of Origin on Utilization Rates and Trade Flows under the Everything But Arms Initiative (EBA)”, *EUI RSC*, [Forthcoming. \(preliminary results: https://www.osservatorio-economie-emergenti-torino.it/images/slides_and_videos/aissec_2020/Crivelli.pdf\)](https://www.osservatorio-economie-emergenti-torino.it/images/slides_and_videos/aissec_2020/Crivelli.pdf)
- **Crivelli, P., Inama, S., and J. Kasteng. 2021.** “Using utilization rates to identify rules of origin reforms: the case of EU free trade area agreements”, *EUI RSC*, 2021/21, Global Governance Programme-437. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3821597

Thank you for your attention



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