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**World Trade Organization**  
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**PREFERENTIAL RULES OF ORIGIN  
IN REGIONAL TRADE AGREEMENTS**

Maria Donner Abreu  
World Trade Organization (WTO)  
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*"Tá todo mundo enrolando? Tá todo mundo enrolando."*  
Jô Soares, Brazilian comedian

*"Plus ça change, plus c'est la même chose"*  
French proverb

## PREFERENTIAL RULES OF ORIGIN IN REGIONAL TRADE AGREEMENTS

by Maria Donner Abreu<sup>1</sup>

### ABSTRACT

This study surveys preferential rules of origin applied by 192 regional trade agreements (RTAs) covering trade in goods notified to the GATT/WTO up to 1 November 2010. It takes into account the preferential rules of origin that were notified to the WTO; whenever known and available, modifications to the original rules of origin have been updated.

This study contains two basic features: a description of some key elements of preferential rules of origin in RTAs, followed by an attempt to provide a reality-check of how these rules affect actual trade. That is done by an ex-post examination of data on the use of RTAs' preferences and, in their absence, of their margins of preference (MOPs).

While the *raison d'être* of preferential rules of origin is the avoidance of trade deflection, the practice in RTAs has diluted this objective and it would seem that preferential rules of origin are increasingly becoming an economic, political and trade instrument. In its descriptive part, the study identifies what seems to be a tendency to design stricter rules of origin, while detecting concomitantly the inclusion in modern preferential rules of origin of flexibilities that provide, through the rules of origin themselves, a preference beyond the lower tariff rate resulting from the preferential treatment and mechanisms that allow the integration of third-parties into preferential rules of origin regimes.

The reality-check part of the study points to the fact that much beyond the coverage of RTAs, it is their effective implementation that poses a challenge to economic operators. Though data on the use of preferences is either not disclosed or inexistent, they are nevertheless available for some economies. On the basis of existing data of preference utilization, the analysis of the effects of rules of origin on preferential trade flows appears to give rise to a dual reality - namely a relatively high use of preferences in certain instances coexisting with preferences failing to attain their potential in other cases. As regards RTAs for which utilization rate is not available, the paper analysis preferential rules of origin from a MOPS perspective, assuming that MOPs of at least 5 percentage points would offset compliance costs and thus provide a stimulus to comply with rules of origin in order to benefit from preferences. The analysis, made for 68 out of 192 RTAs, do not allow any conclusion regarding that generally presented hypothesis.

Finally, the paper briefly outlines some suggestions for further action, including the launching in the WTO of exploratory work on preferential rules of origin within an "open regionalism" scenario.

**Keywords:** Regional Trade Agreements, rules of origin , margins of preference.

**JEL Classifications:** F13, F14, F15, F53

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## 1 FOREWORD

Economic theory suggests that preferential rules of origin (PRO) are used as an instrument to avoid trade deflection. With the proliferation of RTAs since the beginning of the 21<sup>st</sup> century, however, they may increasingly play an additional role as has been pointed out in a 2009 special report published by researchers of the Inter-American Development Bank (IDB):

"However, RoO are widely considered "hidden protectionism," an obscure and opaque trade policy instrument that can work to offset the benefits of tariff liberalization. RoO in effect set up walls around RTA members that prevent them from using certain inputs in each final product. This limits the access of member country producers to inputs from the rest of the world, as well as extraregional input providers' sales to the RTA region. The more restrictive are the rules of origin, the higher are the walls they create, and the more difficult efficient allocation of resources becomes. Since a failure to meet the RoO disqualifies an exporter from the RTA-conferred preferential treatment, RoO can and must be seen as a central market access instrument reigning over preferential trade. In empirical studies, Estevadeordal (2000) and Suominen (2004) find RoO restrictiveness to be determined by the same protectionist interests that push tariffs."<sup>2</sup> (footnote omitted)

References to the potential negative trade and investment effects of stringent preferential rules of origin had already been made in 2002 in a WTO Secretariat survey on preferential rules of origin in RTAs.<sup>3</sup> In this respect, while the WTO Agreement on (non-preferential) Rules of Origin requires that these shall "not themselves create restrictive, distorting, or disruptive effects on international trade and that they "should not be used as an instrument to pursue trade policy objectives directly or indirectly" (Articles 2(c) and 9(d)), these disciplines do not apply to preferential rules as they are not included in Annex II to the Agreement on a "Common Declaration with regard to Preferential Rules of Origin".<sup>4</sup>

The steady increase in the number of RTAs, coupled with the role played by RTAs in trade relating to production chains, has resulted in focus being placed on distorting trade and investment effects of preferential rules of origin. The report by the IDB further states:

"Rules of origin are first and foremost geared toward affecting the input composition of goods. As such, they can be expected to have particularly important effects on trade in intermediate goods."

"Similarly, foreign investors can "go RTA shopping"—opt to locate in RTA partners where compliance with the trade disciplines is easiest, rather than in partners with the most efficient production, *ceteris paribus*."

This study surveys preferential rules of origin applied by 192 RTAs covering trade in goods notified to the GATT/WTO up to 1 November 2010. It takes into account the preferential rules of origin that were notified to the WTO; whenever known and available, modifications to the original rules of origin have been updated. This study uses the general framework established by the WTO 2002 survey; basic information on the concepts referred to in this study can therefore be consulted therein.

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<sup>2</sup> Estevadeordal, A., Suominen, K, Harris, J.T. and Shearer, M (2009). The views expressed in that report are those of its authors alone, and did not necessarily reflect the views of the IDB or any of its member countries.

<sup>3</sup> WTO(2002). Background survey by the WTO Secretariat prepared for the Committee on Regional Trade Agreements, *Rules of Origin Regime in Regional Trade Agreements*, document WT/REG/W/45 of 5 April 2002. The survey aimed "at providing Members with as detailed information on RTA rules of origin regimes as allowed by data availability and the technical nature of the issues involved. Particular attention has been devoted to the definition of a general framework for comparison purposes".

<sup>4</sup> The Common Declaration takes up some of the Agreement's provisions, e.g. a precise definition of the criteria upon which the rules of origin are based, including a statement of what does (rather than what does not) confer origin; the publication of laws and regulations relating to rules of origin; the non-retroactive application of new rules of origin and of amendments to existing rules; the independent judicial review of determinations of origin; the protection of confidential information; and notification to the WTO Secretariat. As of December 2012, only one WTO Member had not provided a notification regarding preferential rules of origin, and only 6 notified that they did not apply any preferential rules (document G/RO/73 of 11 December 2012).

This study contains two basic features: a description of some key elements of preferential rules of origin in RTAs (Sections 2, 3 and 4) followed by an attempt to provide a reality-check of how these rules affect actual trade. The extent to which an RTA has actually liberalized bilateral trade requires an ex-post examination of trade actually carried out under the preferential treatment established by the RTA, instead of the otherwise generally presented figures of "increase in bilateral trade" - which encompasses both MFN and preferential trade. Only trade carried out under preferences represents improved market access under the RTA. The paper examines statistical data on the use of RTAs' preferences, thus revealing improved market access, and in their absence, on their margins of preference (Sections 5 and 6). Finally, Section 7 briefly outlines some suggestions for further action.

## 2 AVOIDING TRADE DEFLECTION THROUGH RULES OF ORIGIN: SOME PREFERENTIAL RULES OF ORIGIN BASICS

Numerous comparative studies have been done in the last decade on the issues of preferential rules of origin. Some researchers have for a long time paid particular attention and devoted numerous resources to mapping preferential rules of origin.<sup>5</sup> The World Customs Organization<sup>6</sup> has also developed a comparative study on EU and NAFTA preferential rules of origin, to be progressively extended to more agreements and more modules.<sup>7</sup> Another widely used regime of preferential rules of origin is the one established in the network of RTAs of the Commonwealth of Independent States (CIS). Table 2.1 below presents a breakdown of the RTAs rules of origin considered in this analysis in terms of groups (intra-European, -American and -CIS countries); other regions and cross-regional RTAs are presented globally.

**Table 2.1- RTAs Regimes of Rules of Origin**

RTAs Regimes of PRO	
Intra-Europe	50
<i>of which EU family</i>	<i>50</i>
Intra-America	26
<i>of which NAFTA family</i>	<i>21</i>
Intra-CIS	27
<i>of which CIS family</i>	<i>27</i>
Others	89
<b>Total</b>	<b>192</b>

Source: WTO RTA database.

The most referred to EU rules of origin is the PanEuroMed system of cumulation of origin. The PanEuroMed covers 42 countries (EU(27), the four countries of EFTA, the Faroe Islands, Turkey and the participants in the EU's "Barcelona Process", namely Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and the Palestinian Authority. A similar system, though not providing for the same cumulation rules, is also applied in RTAs between, on one side, either the EU or the EFTA, and on the other side the Western Balkans countries, and in RTAs among these countries (see Section 3.1 below).<sup>8</sup>

A general review of the preferential rules of origin of the RTAs involved shows that, increasingly, not a single method for determining origin is used, but rather a combination of methods - namely CTC (with the CTH being the most used), value-added and processing requirements. It also shows that alternative rules are present in a quite high number of RTAs, but normally not for all the tariff lines. The choice between one of the alternative rules of origin may either be left for selection by the exporter, or may be imposed in the RTA for selected sectors - e.g. the regional value content of automotive products in NAFTA can only be calculated on the

<sup>5</sup> See Estevadeordal, A. and Suominen, K. (2004a) and (2004b).

<sup>6</sup> See [http://www.wcoomd.org/origin/01\\_study/pro\\_study.html](http://www.wcoomd.org/origin/01_study/pro_study.html).

<sup>7</sup> These two RTAs have established what is now referred to as the EU or the NAFTA family of rules of origin.

<sup>8</sup> Detailed information on this has been prepared by the EU Taxation Services and can be found at *A User's Handbook to the Rules of Preferential Origin used in trade between the European Community, other European Countries and the countries participating to the Euro-Mediterranean Partnership*, viewed at [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_duties/rules\\_origin/preferential/handbook\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_duties/rules_origin/preferential/handbook_en.pdf).

basis of the net cost method and exporters cannot opt for the transaction value method.<sup>9</sup> In light of this diversity, a comprehensive mapping of all of the RTAs considered herein would appear cumbersome and too general to serve a comparative purpose; instead, the following three Sections of the paper highlight some special features of preferential rules of origin in RTAs. This Section will focus on elements of modern rules of origin regime aimed, by definition, at avoiding trade deflection, Section 3 will look at more recent features of these regimes that could be seen as providing, in themselves, a preference beyond the lower tariff rate resulting from the preferential treatment, and finally Section 4 will address mechanisms that allow the integration of third-parties into preferential rules of origin regimes.

#### *Particularities Regarding Value-Added Criterion*

"Alternative and co-equal" product-specific rules of origin have been introduced as a new feature in Australia's RTA with New Zealand and ASEAN (in force since 2010). While this applies for around 83% of the tariff lines - offering exporters the choice of a CTC-based rule or an RVC-based equivalent - 11% of lines are offered for only one method while the remaining lines are covered by wholly obtained requirements for agricultural goods and special rules for waste and scrap goods. Australia's otherwise generally-applied preferential rules of origin is based on CTC and process rules for chemicals, and the requirement that the last process of manufacture takes place in one of the RTA parties. In its RTA with Singapore (in force since 2003), however, rules of origin diverge from the general criteria and are on a value-added basis.

NAFTA, and many of the NAFTA-family RTAs, provide for alternative rules of origin based on different value-added requirements, depending on whether the net-cost or the transaction value method is used. Alternative rules of origin apply in the pan-European system of cumulation for goods of Chapters 28–29, 31–39, 84–91 and 94, with the alternative rule always based on a value-added criterion. Finally, CEMAC also provides alternative rules for manufactured products - i.e. either the product is originating because it is made from a minimum of 60% of originating raw material, or there is a regional value-added of 50% (these percentages have progressively increased from 40% and 30%, respectively).<sup>10</sup>

#### *Lower thresholds for less developed parties of an RTA*

In many RTAs among Asian developing economies, the minimum value added for products originating in least developed country parties is reduced by 10% (from a general threshold varying from 35% to 45% of regional value added), thus facilitating the use of preferences - e.g. APTA, SAFTA, ASEAN-India. In the latter two cases, Sri Lanka also benefits from a threshold reduced by 5%.

Preferential treatment along these lines is also available in MERCOSUR, on a temporary basis (up to 2022) for Paraguay and Uruguay, and Argentina when exporting to Uruguay. It provides that the MERCOSUR maximum import content of 40%<sup>11</sup> is increased to 60% for Paraguay and 45% (50% up to 2012) for Uruguay as well as Argentina's exports to the latter.

#### *Tolerance/De minimis Rules*

Tolerance/*de minimis* rules increase the level of flexibility of preferential rules of origin by allowing a *de minimis* input from third parties, otherwise not allowed. Though they have normally been established in connection with the CTC criteria, they may also apply in conjunction with other criteria for granting origin, including in requirements relating to mandatory originating inputs. However, whenever applied in conjunction with a value-added requirement, the final threshold specified therein is not increased by the allowed tolerance - that is, in such cases, the effect of the tolerance rule is *de facto* nullified.

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<sup>9</sup> The net cost method, also referred to as build-up, calculates the regional value content on the basis of the cost or originating products; the transaction value, or build-down method, deducts from the transaction value of the product the value of the non-originating materials.

<sup>10</sup> CEMAC Customs Code and Decision No. 7/93-UDEAC-556-CD-SE1, modified by Decision No. 1/98-UDEAC-1505-CD-61.

<sup>11</sup> MERCOSUR's regime requires a CTH, value-added is used in those cases where no such change of classification has taken place but the final product represents a substantial transformation from the non-originating materials.

The PanEuroMed threshold for tolerance rules is 10%. A lower threshold of 7% is applied in NAFTA, except for cigarettes and cigars, which have a threshold of 9%. Other RTAs of the NAFTA family have a threshold between 7% and 9%, while RTAs between Israel on one side and Canada and Chile on the other side keep to the 10% limit. Other RTAs are generally within the range of 8% to 10%, with notable exceptions being the much lower limitation of PICTA (2%), and the much higher threshold of 15% applied to the EU-South Africa RTA as well as those with ACP countries.

Tolerance rules do not apply in RTAs of the CIS area, intra-African RTAs nor in the US RTAs that do not follow the NAFTA family - i.e. with Bahrain, Israel, Jordan, Morocco and Oman.

Tolerance rules are normally applied across the board and are expressed as a percentage of the value of the product, subject to the following main exceptions:

- a. Textiles. In the PanEuroMed system of cumulation, textile products are normally excluded from the general allowance; tolerance rules are instead applied on a product-specific basis and expressed in weight - i.e. allowing a maximum weight (out of the total weight) of non-originating materials in the final textile product. For the NAFTA family of RTAs, the tolerance rule does not apply to textiles generally but rather allows the use of non-originating fibres and yarns up to a threshold in terms of weight.
- b. Various exclusions to the tolerance rule apply in respect of agricultural products in RTAs following the NAFTA family. Excluded products are dairy, peanuts, various vegetable oils, sugar, and citrus products. For products of HS Chapters 1 to 21, tolerance only applies if the non-originating material is classified in a different subheading than the final product. Korea's RTAs also include limitations on tolerance rules for agricultural products.

#### *Absorption Principle*

The absorption principle - i.e. considering as fully originating an intermediate material that has acquired originating status through the RTA's rules of origin once incorporated into a final product - is common to the majority of the preferential rules of origin schemes. Sector-specific exceptions to the absorption principle exist; for example, neither NAFTA nor MERCOSUR apply the absorption principle to the automotive sector. In Asia, many RTAs (e.g. those involving China) are silent on this question; it could therefore be inferred that this principle is not applied. Japan's and many of Korea's RTAs, however, do apply this principle.

#### *Other Particularities*

In ASEAN-India, APTA, SAPTA, SAFTA and the bilateral RTAs of Sri Lanka with India and Pakistan, a provision allows parties to forbid imports of products which include materials from States with which one of the RTA's party does not have trade relations.

In the CIS family of rules of origin, origin is granted based on a combination of criteria using CTC, value-added and processing requirements. In addition, however, a CIS-residency rule applies, in that a product will only be considered originating if it is "exported by a resident of a Member State of this Agreement and imported by a resident of one of the Member States of this Agreement from the customs territory of another Member State of this Agreement. A resident shall mean an organization created on the territory of this State, or a natural person who permanently lives on the territory of this State." (paragraph 10 of the Attachment to the *Decision on Rules of Determining a Country of Origin of Goods*).<sup>12</sup>

In the Singapore-New Zealand RTA, which requires that the last process of manufacture be carried on in one of the parties, it has been agreed that quality control checking and testing procedures be regarded as such, provided they represent at least a certain percentage of the cost of the final product (8% when another originating content exists, or 50% otherwise).<sup>13</sup> However, that does not apply for certain textiles or textile articles, clothing, headwear or footwear, as well as all of Chapters 50-65.

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<sup>12</sup> See document WT/REG82/1 of 1 October 1999.

<sup>13</sup> These operations are otherwise generally considered as minimal operation not conferring origin.

In the Singapore-US RTA, an "Integrated Sourcing Initiative" has replaced preferential rules of origin for a limited number of products through a direct shipment requirement (see Section 4 ).

### 3 PROVIDING PREFERENCES THROUGH THE RULES OF ORIGIN

While the *raison d'être* of preferential rules of origin is the avoidance of trade deflection, the practice in RTAs has diluted this objective and it would seem that preferential rules of origin are increasingly becoming an economic, political and trade instrument. Within that context, there seems to be a tendency to design stricter rules of origin that are complemented with various flexibilities, implemented differentially: either temporary or permanent; regime-wide, sector- or product-specific; and towards all or selected RTA partners - e.g. for LDCs. This Section briefly highlights some of these preferential rules of origin features.

#### 3.1 Cumulation provisions

Bilateral cumulation is a general provision in all preferential rules of origin with some few, but notable, differences. In some plurilateral RTAs, separate Agricultural protocols state that materials originating from a Party to the plurilateral RTA but which is not a party to the bilateral protocol are considered non-originating. For example, under the NAFTA, a bilateral protocol on agriculture was signed between Canada and Mexico under which materials from the United States are considered as third-party materials. The same applies to all separate bilateral agricultural arrangements concluded by individual EFTA States with their partners, in the context of an EFTA comprehensive free-trade agreement.

In the case of many RTAs concluded by India (with Afghanistan, Sri Lanka, and in the context of APTA, SAFTA and SAPTA), "partial" cumulation applies when an already originating material is used in the production of a final product. This is similar to full cumulation, in that all of the value-added in each Party is accounted for; however, this cumulative threshold is lower than if each stage of production was accounted for separately. For example, in India-Sri Lanka, the normal minimum value-added is 35% but the cumulative value added is 25%; in SAPTA, they are respectively 40% and 50%. Such cumulative rules of origin, by encouraging even more the mutual use of originating inputs, seem to increase the potential trade-distortive nature of preferential rules of origin. A similar rule applies in the case of CEMAC.

In the late 1990s, the introduction of the diagonal cumulation of origin - i.e. considering as originating materials that come from certain third-parties to the RTA - by the (then) European Communities in its European network of RTAs has set a trend that, though far from being generalized world-wide, is being used parsimoniously in RTAs outside Europe.

The European Union, initiator of the diagonal cumulation regime, is the hub of the vastest diagonal cumulation area, the Pan-European-Mediterranean, or the "PanEuroMed" system of cumulation. The PanEuroMed, an area in constant evolution, is based on the application of a common set of rules of origin within all RTAs concluded among countries within the area, and on the EU concept of "variable geometry" of diagonal cumulation rules. "Variable geometry" provides that the rules of origin evolve quasi-automatically<sup>14</sup> from bilateral to diagonal cumulation, once the party to an RTA with the EU (hub) has concluded and implemented the full set of RTAs the EU applies. In light of this requirement, as of August 2012, diagonal cumulation was still not in force for three out of the 42 countries participating in the PanEuroMed - namely Lebanon, the Palestinian Authority and Syria.<sup>15</sup> In Europe, RTAs with Andorra and San Marino only benefit from bilateral cumulation; however, joint declarations provide that industrial products originating in Andorra as well as all products originating in the Republic of San Marino are to be considered as originating in the EU by the partner countries, thus benefiting from diagonal cumulation foreseen in the RTA with the partner country.

Another system of diagonal cumulation applies to the EU and EFTA networks of agreements with countries in the Western Balkan area under the Stabilization and Association Process (SAP) - which encompasses Albania, Bosnia and Herzegovina, FYROM, Montenegro and

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<sup>14</sup> Changes in legal texts and Protocols of origin are notably required.

<sup>15</sup> The other 39 participants in the PanEuroMed are the EU(27) Member States, Algeria, Egypt, Faroe Islands, Iceland, Israel, Jordan, Liechtenstein, Morocco, Norway, Switzerland, Tunisia and Turkey.

Croatia - and in the RTAs concluded among these countries. Diagonal cumulation is in force for all of them except Croatia.<sup>16</sup> Ultimately, this system might be integrated into the PanEuroMed.

Finally, the EU also applies a system of full cumulation - which allows the RTA parties to carry out working or processing on non-originating products in the cumulation area formed by them and to count all operations as originating - with the countries of the EEA (i.e. the EFTA countries except Switzerland) and with Algeria, Morocco and Tunisia. However, products that are granted originating status due to full cumulation rules are excluded from the PanEuroMed system of cumulation.

The NAFTA family of rules of origin legislation also generally provides for full cumulation whenever a value-added requirement is used. This is generally provided for by allowing the deduction, from the value of non-originating materials, of the cost of originating materials used in the production of that non-originating material in the territory of a Party. Exceptions to this general rule may apply, in particular as regards automotive products that sometimes do or do not allow this type of cumulation.

Beyond the European area, diagonal cumulation exists in a limited number of RTAs in the Americas, Asia and Africa. In Africa, the EU-South Africa RTA foresees the application of diagonal cumulation with ACP countries, and full cumulation with SACU members; however, these provisions are not yet in force. The cases of the EU-Côte d'Ivoire and EU-Cameroon EPAs are similar to that of the EU-CARIFORUM described below.

In the Americas, the EU-CARIFORUM EPA applies diagonal cumulation towards OCTs and other ACP States, subject to variable geometry. Diagonal cumulation can also apply to neighbouring developing countries upon request from the CARIFORUM, and upon agreement. For all the EU and CARIFORUM area, the application of full diagonal cumulation is also foreseen. As of August 2012, however, the variable geometry requirements had not yet been concluded, and no request to add any neighbouring developing countries had been made; thus, only bilateral cumulation applied. Finally, time-limited exclusions (up to 2015) from diagonal cumulation are foreseen for rice, sugar and products with high sugar content.

MERCOSUR provides for bilateral and full cumulation among its member States, and diagonal cumulation with Andean Community, Peru and Bolivia, all of which have free-trade agreements with the customs union.<sup>17</sup> Diagonal cumulation only applies for those products where the tariff has been fully eliminated and where identical rules of origin apply.

Also in the Americas, the Panama-Central American Free-Trade Treaty applies either bilateral or diagonal cumulation, depending on the timing of consideration. In fact, the Treaty is both an umbrella framework providing for cumulation with all of the parties - namely CACM countries and Panama - and implemented through bilateral Protocols with each CACM member, providing in particular the tariff elimination programme and some specific rules of origin. Cumulation is applied on condition that either the specific rule of origin is common to all the Parties, or where the same rule of origin and the same tariff elimination programme for a good are common to at least three parties. Since all of these Protocols have been concluded, the general provision for cumulation among CACM countries is in force. Further, the Treaty provides for discussions on the possibility that materials of Panamanian origin benefit from cumulation on trade within the CACM, or that this be automatically granted if a similar provision is extended to another country. In the case of the Treaty between Chile and Central America - also composed of an umbrella RTA and bilateral Protocols - cumulation between all parties is provided for without any of the restrictions and specificities found in the Panama-Central America Treaty.

A regime-wide diagonal cumulation is also provided for in the Canada-Israel FTA vis-à-vis materials originating in the United States and, via the Qualifying Industrial Zones (QIZ agreements, see Box 3.1), in the US-Israel, US-Egypt and US-Jordan RTAs. In the US-Jordan and US-Oman RTAs, the start of discussions to extend diagonal cumulation to other neighbouring countries is foreseen. In the case of the RTA between Singapore and Jordan, the possibility for

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<sup>16</sup> Croatia is due to become the 28<sup>th</sup> Member country of the EU on 1 July 2013.

<sup>17</sup> Diagonal cumulation is however not provided vis-à-vis Chile, which also has an FTA with MERCOSUR and is also one of its associated States - like Bolivia.

discussions on diagonal cumulation is provided for in cases where each of the parties conclude an RTA with the same third country.<sup>18</sup>

### Box 3.1

#### Qualifying Industrial Zones

QIZs were established autonomously by the United States in 1996; imports of products manufactured in these zones - which encompass portions of the territory of Israel and Jordan, and Israel and Egypt - benefit from duty-free entry to the United States if they meet the relevant rules of origin.

QIZs were presented as an instrument to support the Middle East peace process, having the dual aim of developing business co-operation between Israel and Jordan and Israel and Egypt, and also of diversifying the economies of Jordan and Egypt. QIZs are defined in the United States Harmonized Tariff Schedule as:

"(G) For the purposes of this paragraph, a "qualifying industrial zone" means any area that--(1) encompasses portions of the territory of Israel and Jordan or Israel and Egypt; (2) has been designated by local authorities as an enclave where merchandise may enter without payment of duty or excise taxes; and (3) has been designated by the United States Trade Representative in a notice published in the Federal Register as a qualifying industrial zone."

Protocols on the establishment of QIZ between Jordan and Israel and Egypt and Israel were signed respectively in November 1997 and December 2004. By June 2012, five QIZ territories have been designated in Jordan (Irbid, Zarqa, Amman, Karak and Aqaba) and four in Egypt (Alexandria, Greater Cairo, Suez Canal Zone and Middle Delta Governorates); numerous companies have established themselves therein. Goods entering the QIZ for processing and export enter free of tariffs and excise taxes.

Source: Authorities of Egypt, Israel, Jordan and the United States.<sup>19</sup>

In the ASEAN-Japan RTA, a good covered by the Information Technology Agreement (ITA) may be considered as an originating material of the Party when it is used in the production of another good in that Party; that is however not possible for ITA materials classified under HS 8541.10 through 8542.90.

In the RTA between Australia and Thailand, diagonal cumulation for textiles and footwear (HS Chapters 50 to 64) is allowed with 178 "developing countries and places" up to a cumulative value-addition of 25% of the value of the product, out of a minimum required regional value added of 55%, for a period of 20 years - i.e. up to 2025.

Diagonal cumulation is sometimes introduced not as a general principle in the RTA, but rather provided for in the product-specific rules of origin annexed to many RTAs. For example, Japan's bilateral RTAs with ASEAN countries allows diagonal cumulation with all ASEAN countries for certain agricultural and textile products. In any case, Japan has also, simultaneously, a plurilateral RTA with ASEAN where cumulation among all of the parties is provided for.

Under NAFTA, diagonal cumulation applies de facto for automatic data processing equipment when the applied tariff vis-à-vis third parties is common to all NAFTA parties. Further, with the aim of establishing a production chain of textiles in the Americas, a system of diagonal cumulation has been established on product-specific rules of origin relating to certain textile products.<sup>20</sup> Thus, RTAs between the US, Mexico, Canada, Central American countries, Dominican Republic and Peru provide for diagonal cumulation - up to certain limits - for certain yarns, fabrics

<sup>18</sup> As of August 2012, this is the case for EFTA countries and the United States.

<sup>19</sup> See United States Harmonized Tariff Schedule, General Note 3(a)(v)(G) in the General Notes of Interpretation, available in <http://www.usitc.gov/tata/hts/bychapter/1101.htm>. The text of the QIZ Agreement can be found at <http://www.agreements.jedco.gov.jo/qiz.html>, and additional information can be found at <http://www.moit.gov.il/NR/exeres/2124E799-4876-40EF-831C-6410830D8F02.htm> and <http://www.qizegypt.gov.eg/>.

<sup>20</sup> USTR has continuously indicated its aim of supporting an integrated supply chain under CAFTA-DR that "creates a strong regional textile and apparel industry, using US yarn and fabric, able to better compete with Asia"; the development of a textile hub in the Middle East is also a disclosed aim.

and filaments of these group of countries, extended also, in fewer RTAs, to certain products from Israel and LDCs from sub-Saharan Africa.<sup>21</sup> Conversely, in CAFTA-DR, only bilateral cumulation is available for sugar, coffee and products facing quantitative restrictions.

Product-specific diagonal cumulation for some textiles is also provided for in the US-Morocco RTA, vis-à-vis cotton fibres from African LDCs carded or combed there or in one of the Parties; further, the RTA also provides for the possibility of discussions on the introduction of a more general diagonal cumulation system.

Diagonal cumulation has modified considerably the situation vis-à-vis duty drawback, given that in the context of the PanEuroMed, drawback is not possible for goods deemed to be originating via the diagonal cumulation rules, though it remains in existence for bilateral cumulation except for trade with the EU, Turkey, Switzerland, Norway, Iceland and the Faeroe Islands, and in the agreement between the EU and Israel.<sup>22</sup> In the RTAs concluded between the EU and Morocco, Algeria, Tunisia, Egypt, the Palestinian Authority on the West Bank and Gaza Strip, Jordan, Lebanon and Syria, partial drawback is possible during a transition period which expired on 31 December 2012, subject to the retention of a 4% customs charge for all industrial products except textiles, which are subject to a rate of 8%.<sup>23</sup> In summary, and except during the applicable transition period, drawback can be granted only if diagonal cumulation has not been applied and a product has not been re-exported from a country of importation to any of the other countries of the zone.

The EU has also instituted the no-drawback rule in its RTA with Chile and Mexico after a transition period of respectively 4 and 2 years. Drawback remains however possible in the EU-South Africa RTA and the EU EPAs.

Apart from the EU agreements, three other special RTA drawback regimes apply:

- a. In NAFTA, drawback has been replaced with a system that provides for the refund of the lesser of the amount of duties paid on imported goods and the amount of duties paid on exports of that good, or another good manufactured from that good, to another NAFTA Party;
- b. in MERCOSUR, a no-drawback rule is foreseen but has not yet been applied; the most recent decision extended the use of drawback up to end of 2016; and
- c. in CARICOM, and in COMESA as from 2004, a member State may refuse to accept as eligible for preferential treatment goods for which drawback is claimed.

While the elimination of duty-drawback has been presented as restoring equal treatment between production for domestic markets and for export, it may, in the presence of a cumulation system, also affect the sourcing of materials, shifting it from third countries to countries participating in the cumulation system, and thus contribute to trade diversion.

### 3.2 Dual Thresholds

Dual thresholds for granting originating status exist in various RTAs, and may apply irrespective of the rules of origin criteria. Apart from those linked to the level of development of an RTA party (referred to in Section 2 ), these may have other economic or political motivations. The paragraphs below present some types of dual thresholds that provide what has been referred to in the literature as "soft" rules of origin.

Many RTAs involving developing economies in Asia that use a value-added criterion (e.g. SAFTA, SAPTA, APTA) provide, in addition to the normal threshold, a "cumulative regional content" threshold where production takes place in various countries, in such a manner that the regional

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<sup>21</sup> See Table 5.2.

<sup>22</sup> Duty-drawback has traditionally been seen as providing a bias for exporting instead of selling to the domestic market.

<sup>23</sup> Parties explain this derogation by the fact that tariffs applicable to non-originating materials in some countries are considerably higher than those applicable in the EU; thus, by allowing a refund to a certain level, the imbalance which could be seen as favoring EU producers, is reduced.

"net" cumulative content may be lower than in the normal requirement. In fact, this functions like a full cumulation regime; however, concomitantly, the regime does not provide for the absorption principle. In the two bilateral RTAs of Sri Lanka, a lower domestic content requirement also applies if a certain percentage of the value comes from the other RTA party - 25% instead of 35%, provided an extra 10% is originating from the partner.

In the RTA between Singapore and Australia, the general regional value-added of 50% is reduced to 30% for a list of products in HS Chapters 84 and 85. The opposite - i.e. higher domestic content requirements for specific products - apply in the Chile-Korea RTA, where the regional value content is increased from 45% under the built-down method to a very high threshold of 80%.

Another typical case of softer rules of origin is that of the tariff-preference levels (TPLs). This product-specific arrangement, common to various textiles origin requirements in the Americas, is in fact a relaxation of rules of origin, normally subject to a certain quota and provided for during a transition period (except under NAFTA and US-Chile where it is permanent).

Similar provisions also exist for certain agricultural products. For example, in CAFTA-DR, the rules of origin for carburant ethanol (HS 22.07, on which a TRQ applies)<sup>24</sup> is a CTH for products within the quota, while generally a CTCh is required for products out of quota. In the Panama-Costa Rica RTA, for processed cheese not grated or powdered (HS 0406.30)<sup>25</sup>, a rule of origin requiring a CTSUBH and an originating content of solid weight of 20% applies for 12 years; from thereon (i.e. 2021), preferential treatment will only be granted if the milk is originating. For other tomato sauces of HS 2103.20<sup>26</sup>, the duty-free TRQ is associated with a less-stringent rule of origin (CTSUBH), while for out-of-quota an originating content of solid weight of 50%<sup>27</sup> is required; to mitigate this stringency, however, a "short supply" mechanism (activated by the RTA's Administrative Commission) is used. In the latter RTAs, preferential treatment for both products is duty-free at the RTA's entry into force.

The examples above merit two remarks. First, that preferences are sometimes actually provided by the rules of origin themselves, instead of the preferential tariff treatment. The mere existence of soft rules already signifies that the preferential rules of origin as originally designed contain intrinsically a trade-restrictive effect, and that the trade liberalization aimed at would not take place unless these are somehow made more flexible. Second, "short-supply" mechanisms are in fact current in many RTAs in the NAFTA family of RTAs, normally applying to textiles and certain agricultural products. Products can be included or excluded in the short-supply list - generally upon the request of exporters and acceptance by the RTA's governing body. Again, the mere existence of this scheme is a self-recognition of the stringent character of the rules of origin. Further, though providing undoubtedly a relaxation of rules of origin, the combination of strict rules of origin and short supply mechanism reduces predictability.

#### **4 INTEGRATING THIRD-PARTIES INTO PREFERENTIAL RULES OF ORIGIN: OUTWARD-PROCESSING**

This Section will review mechanisms that are increasingly being used in RTAs and which allow the integration of third-parties, though in a limited manner, into the RTA's preferences. Two other mechanisms addressed elsewhere in the analysis - namely tolerance rules and diagonal cumulation - complement this picture.

RTAs normally use the principle of territoriality - i.e. if originating products leave, even temporarily, the RTA parties' territory, such status is lost. Given that direct transportation is not always possible, RTAs also generally allow transit and transshipment through third parties; operations such as unloading, reloading, or those needed to preserve the products in good condition or to transport them to the territory of a Party are authorized, provided the products remain under the control of customs authorities in the territory of a non-Party.

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<sup>24</sup> US MFN 2009 rates: 1.9% and 2.5%, duty-free in-quota.

<sup>25</sup> MFN 2009 rates are as follows: 66% for Costa Rica and 30% for Panama.

<sup>26</sup> MFN 2009 rates are as follows: 15% for Costa Rica and for Panama either 25% or 50% depending on the content of dried tomato extract.

<sup>27</sup> Conversely, ketchup is subject to a single rule of origin requiring a CTH; it does not however benefit from a TRQ.

Particularly since the late 1990s, RTAs have started adapting this territoriality concept to production and trade developments by allowing, under strict conditions, fragmentation of production processes so that some operations may be carried out outside the territory of the parties (or cumulation area) while maintaining the originating status of the final product - thus integrating outward-processing (OP) into preferential trade. Literature suggests that OP is generally used for labour-intensive activities adding a limited value to final products, allowing "hubs" to concentrate in production stages of higher value-added. Also, political objectives are sometimes part of the reasoning behind OP schemes.

Out of the 192 RTAs considered in this study, 70 authorize either general or product-specific OP. There are currently three main hubs for OP schemes - the EU, Singapore and Korea.<sup>28</sup>

The first hub, in terms of the area it encompasses, is the EU's PanEuroMed.<sup>29</sup> For all RTAs under this diagonal cumulation regime, a total value-added<sup>30</sup> via the OP (i.e. outside the pan-Euro-Mediterranean cumulation area) is authorized up to 10% of the ex-works price of the product for which preference is being sought, subject to the following limitations:

- a. the good exported for working or processing outside the area is already originating, and that without the application of the tolerance rule;<sup>31</sup>
- b. the good sent for OP outside the cumulation area has to be subsequently re-exported to the same country in the area;
- c. it has to be shown that the re-imported goods are the result of working or processing in the third-country on the previously exported goods;
- d. OP is not authorized in textile and clothing (HS Chapters 50 to 63); and
- e. when the product-specific rules of origin use a value-added criterion, the combined values (of non-originating materials and of OP) should not exceed the percentages specified therein.

The same OP scheme applies to RTAs of the Western Balkan region - i.e. EU and EFTA RTAs with these countries, and among the Balkans countries themselves. The EFTA RTA with SACU authorizes OP under the same conditions and limitations as that applied in the PanEuroMed area. All other EU RTAs - namely with Andorra, Cameroon, CARIFORUM, Chile, Côte d'Ivoire, Mexico and South Africa - do not allow OP. Similarly, EFTA RTAs with Canada, Chile and Mexico do not allow OP, though in the former case the opening of discussions on that issue is foreseen.

The majority of bilateral RTAs concluded by Singapore allow OP (exceptions: RTAs with Canada, India,<sup>32</sup> Mexico and Peru), while the opposite is generally the case for plurilateral RTAs - with the exception of ASEAN-Korea, EFTA-Singapore and the TPP (see Table 4.1). In the RTA with New Zealand, it is the absence of territoriality provisions that establishes de facto the possibility for OP, the only limitation being compliance with the general RTA rule of origin. In the RTAs with Japan, Jordan and Panama, OP is integrated by allowing cumulation "at different stages undertaken by one or more producers located in its territory"; in the case of the former, originating status is not lost due to insufficient operations performed outside the territory of the parties. For these three RTAs, OP limitation is thus related to the fulfilment of the value-added content requirements in each of them. In the case of the RTA with Australia, territoriality provisions only apply to certain sensitive products for Australia (e.g. petrochemicals, textiles,

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<sup>28</sup> Komuro, N. (2009) and Bak, H-M. (2009).

<sup>29</sup> This has been in place since the establishment of the original PanEuropean system of cumulation in the late 1990s.

<sup>30</sup> The "total value added" outside the area is defined "to mean all costs arising outside the [parties], including the value of the materials incorporated there".

<sup>31</sup> I.e. both tolerance rules cannot be applied together; if that was the case, the use of non-originating materials would have been increased.

<sup>32</sup> In the RTA with India, however, it is foreseen that if India adopts an OP mechanism in any future RTA it concludes, it will be automatically extended to Singapore.

clothing and footwear of HS Chapters 50-65, jewellery, motor vehicles);<sup>33</sup> all other products are therefore not subject to restrictions as regards OP except those of the rules of origin themselves.

**Table 4.1 - Summary of Singapore OP Schemes**

RTA	OP	Products	Status prior to OP
ASEAN-Korea	OP arrangement for Korea: (i) value of non-originating input $\leq$ 40% of the fob price of the final good; and (ii) value of originating materials exported from the Party $\geq$ 60% of the total value of materials used in manufacturing the re-imported product	100 HS subheadings, to be defined by each ASEAN country in the list of goods produced in the Kaesong Complex (see paragraph 0 below)	-
Australia	Authorized subject to compliance with rules of origin.	All except petrochemicals, Chapters 50-65, jewellery, motor vehicles and other products included in Annex 2C.	-
EFTA	(i) OP $\leq$ 50% for goods in Annex I, Appendix 3  (ii) OP $\leq$ 10%  % of ex-works price of the final good	(i) 59 petrochemicals and certain electronic good ((HS 10 digit) of HS Chapters 84-85  (ii) all other products	Beyond minimal process in both cases
Japan	Cumulation of domestic input at different stages of process; limited only by compliance with rules of origin.	264 products subject to VA test	-
Jordan	Cumulation of domestic input at different stages of process; limited only by compliance with rules of origin.	All goods except textiles and clothing	-
Korea	(i) OP $\leq$ 40% and the value of originating materials is $\geq$ 45% of the customs value of the final good	(i) 134 goods (HS 10 digit) from HS Chapters 39, 84-85, 89- 90 listed in Annex 4C	(i) Beyond minimal process
	(ii) Korea-specific OP	(ii) 4,625 goods (HS 6 digit), from HS Chapters 12 to 96 listed in Annex 4B	(ii) -
New Zealand	Authorized given the absence of territoriality provisions; limited only by compliance with rules of origin.	No limitation	-
Panama	Cumulation of domestic input at different stages of process; limited only by compliance with rules of origin.	Goods subject to VA test - e.g. good of Chapters 84, plastics, car bodies, furniture, etc.	-
TPSEP	OP $\leq$ 55% and last process of manufacture in a Party.	146 products (HS 6 digit), mainly of HS Chapters 84 and 85 listed in Annex 4B	Beyond minimal processes
US	(i) Authorized for products benefiting from ISI.	(i) Only products in Annex 3B, basically IT and medical devices.	-
	(ii) Subsidiary or minor processes of on textile or apparel goods; this OP is accompanied by requirements regarding registration of producers, monitoring and anti-circumvention.	(ii) Textile or apparel	-

Source: RTA texts and Singapore website <http://www.fta.gov.sg/>.

More specifically, for example in the case of EFTA-Singapore, OP is authorized for all products, as follows:

- a. for petrochemicals and specified electronic products of HS Chapters 84-85 (listed in the RTA), the total value of all non-originating materials and costs accumulated outside Singapore during OP, including transport costs, must not exceed 50% of the ex-works price of the final good;<sup>34</sup>
- b. for other products, the total value of all non-originating materials and costs accumulated outside Singapore and EFTA countries during OP, including transport costs, must not exceed 10% of the ex-works price of the final good.

In all of Singapore's schemes, the list of products benefitting from OP and associated value-added thresholds may vary, but the following principles are common:

<sup>33</sup> "List of Goods which Must be Subject to the Last Process of Manufacture within the Territory of a Party", Article 3.1(c)(ii).

<sup>34</sup> For these products, the rules of origin generally already provided for a maximum non-originating value-added of 50%.

- a. the country exporting and re-importing the products shall be the same;
- b. need to demonstrate that the re-imported product was obtained via OP on the originally exported product; and
- c. whenever a value-added content rule exists for the product on which an OP has taken place, the maximum value-added of non-originating materials cannot be increased.

In the RTA between Singapore and the US, the OP has taken the form of an "Integrated Sourcing Initiative" (ISI), whereby for certain products listed in Annex 3B, a direct shipment requirement applies instead of the preferential rules of origin.<sup>35</sup> These products, all subject to alternate value-added criterion, benefit in any case from a MFN duty-free rate; however, if they are imported into the US under the RTA they are exempted from payment of the merchandise processing fee, set at 0.21%. Though limited in terms of products it covers, and the absence of any margin of preference vis-à-vis MFN trade, this initiative also allows third-parties to reap benefits from the RTA. The RTA also authorizes OP in textiles, whereby registered Singapore textile producers are permitted to process subsidiary or minor processes of textiles or apparel goods in a non-party; this OP is accompanied by requirements regarding registration of producers, monitoring and anti-circumvention.

The case of Korea is interesting. In fact, since the establishment in 2002 of the Kaesong Industrial Complex,<sup>36</sup> the Republic of Korea has systematically attempted to introduce in all of its RTAs a special OP provision to allow goods produced therein - such as plastics, rubber, articles of apparel and clothing accessories, clocks and watches and parts thereof, and nuclear reactors, boilers, machinery and mechanical appliances and parts thereof - to benefit from its various preferential trade regimes. Further, Korea has also tried to include an otherwise generalized OP regime. Out of the six Korean RTAs examined in this study, only the one with Chile has no OP provision.

The Korea-EFTA RTA contains both a general regime - along the lines of the EFTA-Singapore RTA, namely a maximum VA of 10% - and a specific regime, according to which 267 products (in HS subheadings, listed in Appendix 4 to Annex I on rules of origin) benefit from specific OP, provided that (i) the total value of non-originating inputs does not exceed 40% of the ex-works price of the final product for which originating status is claimed; and (b) the value of originating materials exported from the Party is not less than 60% of the total value of materials used in manufacturing the re-imported product.<sup>37</sup> A similar specific OP is authorized in the India-Korea FTA, except that it only applies to 108 HS subheadings (preserved fruit, artificial fur, kraft paper, textiles) specified in Appendix 3-B-1.<sup>38</sup> The OP provisions in the ASEAN-Korea and Singapore-Korea FTAs are summarized in Table 4.1 above.<sup>39</sup> The APTA has no territoriality principle; thus, OP is authorized provided the rules of origin are fulfilled - i.e. a threshold of 55% for non- originating materials and final process of manufacture performed within the territory of the exporting party.

Besides these three main hubs, the RTA between Canada-Israel authorizes OP in the United States for all products except textiles and clothing of HS Chapters 50-63, up to a maximum value-added of 10% of the transaction value of the good. The RTA between Mexico and Israel, on its side, authorizes, during transshipment, OP limited to non-qualifying operations (as defined in Article 3.16 of the RTA) in the US, Canada, and member countries of the EU and EFTA. Outward-processing is also included in the QIZ established in the context of the bilateral RTAs between the US and Egypt, Jordan and Israel. Finally, the US-Morocco RTA allows OP limited to the carding or combing of cotton fibres within an African LDC, provided the fiber originates in that LDC.

From the overview of the OP schemes provided above, it can be seen that these are normally based on a value-added test; also, in many cases, it only applies to products already having rules of origin based on a value-added criterion. In such cases, given that generally the

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<sup>35</sup> The possibility for expanding the list is foreseen in the RTA, but not expected by the parties. See replies to questions under Section II.3 of document WT/REG161/5.

<sup>36</sup> The Kaesong Industrial Complex was established in 2002 between the Republic of Korea and the Democratic People's Republic of Korea across the demilitarized zone from South Korea.

<sup>37</sup> A review of this mechanism is foreseen, if needed, within 3 years from the RTA's entry into force.

<sup>38</sup> Special safeguards may be authorized, a review is foreseen, and rescission possible within 5 years from the RTA's entry into force.

<sup>39</sup> *Ibid.*

ceiling of value-added authorized in a product is not increased by the OP scheme, the advantage granted by these schemes are somehow similar to those of a diagonal cumulation area.

Another way of integrating third parties into a preferential regime is applied in MERCOSUR since 2005, whereby tariff preferences are granted for intermediate products from third parties used in selected "productive processes" chains in MERCOSUR. These tariff preferences are subject to authorization and granted upon request by producers. The extent to which this preferential treatment has been actually implemented and used remains however unknown.

## 5 PREFERENTIAL RULES OF ORIGIN AND USE OF PREFERENCES IN RTAS

Not all trade between RTA partners are carried out under its preferential regime, and that for a number of reasons, amongst which the impossibility of meeting the rules of origin requirements, lack of information on existing RTAs and their preferences (especially in cases of smaller-sized firms), low margins of preference, high compliance costs, existence of other preferential regimes or quantitative restrictions associated with the preferential treatment. By all means, the *sine qua non* conditions for producers to be able to benefit from improved market access brought about RTAs is that their products *qualify* under the preferential regime created by the agreement - i.e. the product is "originating" from within the area created by the regional agreement - and that exporters *request* the preferential treatment.

Unfortunately, data on the actual use of preferences are generally not disclosed – with the notable exceptions of the United States and the European Union (though in the latter case statistics record all preferential trade, e.g. under both an RTA and GSP) - or inexistent. Data from China, Panama, and LAIA Agreements are also available, though at a lower level of detail. At global levels, the WTO has tried to shed some light on this. In its World Trade Report of 2003, the WTO estimated – on the basis of 119 RTAs that had been notified to the WTO at that time – the share of merchandise under preferences at 43.2% in 2000, and reaching 51.2% in 2005; these figures, however, were without doubt overstated, because they did not exclude trade carried out under MFN zero rates.<sup>40</sup> That shortcoming has been corrected in the 2011 WTO World Trade Report, which reports that for the 20 largest world importers – accounting for 90% of world merchandise trade – only 16% of their imports from all trading partners qualified as preferential trade, on the assumption that all preferences were fully utilized.<sup>41</sup> Trade carried out under MFN zero rates has been computed as reaching half of world trade.

This Section explores the use of RTA preferences, on the basis of information that is publicly available or submitted to the WTO in the context of its various functions. Trade and tariff data, disaggregated into three main groups (whenever available), are analysed:

- a. trade under MFN, with the magnitude of MFN duty-free trade reflecting the structure of bilateral trade between RTA partners;
- b. trade carried out under the RTA, as the analysis of the utilization rate of the preferences – that is, the extent to which preferences that are available to exporters have actually been used – is of major relevance as regards preferential rules of origin, even if exporters' ability to comply with rules of origin is not the only factor hindering the use of preferences (see below); and
- c. trade under other preferential schemes (e.g. GSP).

This analysis is made on an overall basis by each RTA, with a special reference made to main imports having a bearing on high/low utilisation rates; as such, therefore, it proposes a selected look at some sectors/products without attempting to present a comprehensive analysis of trade facilitation/restrictiveness by RTA, and by product. The stage of implementation of each RTA is also presented, as coverage and depth of liberalization tends to increase as the stage of implementation evolves.<sup>42</sup>

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<sup>40</sup> WTO (2003).

<sup>41</sup> WTO (2011). That figure increases to 30% if intra-EU trade is taken into account.

<sup>42</sup> As regards the 192 RTAs considered in this study, immediate implementation of tariff preferences - i.e. with no transition period - occurred in 27% of the RTAs. See Crawford, J-A. (2012).

An amalgamation of this analysis - particularly as it refers to MFN dutiable trade and trade under other preferential schemes - with the coverage and rules of origin of RTAs and other preferential schemes sheds some light on questions such as whether the products concerned are excluded from the RTA, or the rules of origin of the RTA too restrictive, or conditions under other preferential schemes better; an attempt to do so is done in this Section. Such analysis, however, falls short of providing a full-fledged answer to why preferences are underutilized; Section 6 adds an extra element by providing in particular an analysis of the margins of preference for a sub-set of RTAs considered in this paper.

The panorama presented in this Section, though presenting a relative small sample of RTAs and bilateral relations, points to the fact that much beyond the coverage of RTAs, it is their effective *implementation* that poses a challenge to economic operators. As regards the effects of rules of origin on preferential trade flows, a dual reality seems to coexist:

- a. relatively high use of preferences in certain instances; in particular, when the concept of supply and/or value chains is involved (e.g. textiles in the CAFTA-DR context). This may indicate that in some instances tailor-made rules of origin are designed to ensure high utilization of preferences. The extent to which this represents a new form of managed trade is a question worth posing.
- b. more generally, it would appear that the use of preferences fail to attain their potential. That is not necessarily linked to the stringency of the preferential rules of origin themselves, but may in many instances be due to the absence of knowledge among the relatively small economic agents, or to ill-adapted coverage and liberalization schemes of RTAs in view of each RTA partner's trade profile.

A brief review of recent literature on the use of preferences and factors hindering their use precedes the country-specific analysis of use of preferences, thus allowing a comparison of results presented in the paper and in empirical studies dealing with effects of rules of origin on trade.

### 5.1 Use of Preferences: A Brief Review of the Literature

On the basis of disclosed trade and tariff data, some studies have been made on the use of preferences. For example, in its 2011 World Trade Report, the WTO has estimated that "For both the EU and the United States, the PURs [preference utilization rate] are surprisingly high at an aggregate 87 and 92% respectively, weighted by preferential import values" and that "Utilization rates are high, not only in aggregate, but also for most exporting countries, preferential regimes and types of products. Both developed and developing country exporters have high utilization rates in both markets, with the former featuring slightly higher rates."<sup>43</sup>

Another study, published in 2012 in the WTO Staff Working Paper series, has estimated that "By value, around 90% of preference-eligible imports in Canada, the EU and the US use available preferences. In Australia this number is lower at only 61%." However, these figures take into account all preferential trade - thus also including non-reciprocal preferences such as GSP, which is not the case of this analysis. The study cautioned however that exceptions exist in particular in the garment sector, noting that "Since we do not observe any exports in cases where preferences cannot be used because rules of origins may be too restrictive and MFN rates may be prohibitive for exporters in beneficiary countries, the problem of "underutilization" could in practice be more severe, despite high utilization rates."<sup>44</sup>

Taking a different approach - the analysis of a comprehensive survey of exporting firms in six Asian countries (China, Japan, Korea, Philippines, Singapore and Thailand) conducted in 2007- the Asian Development Bank estimated the use of RTAs preferences in these countries at 28.4% on average, with plans for future use so that utilisation rate would reach 53.2%. The survey also indicates that:

"a striking difference between FTA preference users and nonusers in Asian countries is found in firm size. ... Accordingly, a classic firm size effect seems to underlie the pattern of FTA preference use in the Asian sample. The results suggest that using

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<sup>43</sup> WTO (2011), Section II.B.4(b).

<sup>44</sup> Keck, A., and Lendle, A. (2012).

FTAs entail large fixed costs—e.g., learning about FTA provisions, tailoring business plans to complex tariff schedules, and obtaining certificates of origin—and larger firms are better able to muster the requisite financial and human resources than small- and medium-size enterprises (SMEs)."<sup>45</sup>

The conclusion that firms size has an important bearing on the use of preferences is appealing, as the complexity and multiplication of preferential rules of origin makes it difficult for small businesses to be aware of, and qualify under, them. The impossibility of meeting the rules of origin requirements is one of the major impediments to the use of preferences. In a 2012 European Commission Staff Working Document on trade and development, the highlighted as "key achievement" the revised preferential GSP rules of origin:

"... designed to address criticism regarding the previous rules, considered too stringent to allow developing countries to really benefit from the preferential market access offered by the EU. A correlation was indeed proven between the stringency of the rules of origin and the utilisation rates of the tariff preferences. In addition, product specific rules were considered too complicated. Lastly, compliance was considered too costly and burdensome, both for exporters and administrations."

The Commission also noted that "This set of rules is – or will be – used as a point of reference during ongoing and future FTA negotiations" and that :

"Within the framework of EPA negotiations, the EU has proposed a far-reaching initiative, allowing greatly extended possibilities of cumulation. ... With the new proposal, EPA partners would be allowed to cumulate materials coming from any country in the world, as long as these materials are entitled to enter the EU duty free quota free (DFQF), either because there is a 0% duty in the EU's conventional custom tariff or a 0% GSP preferential duty. In addition, cumulation would also be possible, upon request, for industrial products entering the EU DFQF under an FTA. It is expected that the increase of foreign sourcing allowed by these new cumulation opportunities could result in an increase of EU preferential imports from EPA countries of between 2.9% and 7.2% (with foreign sourcing increasing respectively by 10% and 25%). About 45% of the increase in EPA exports is estimated to be in agricultural products and 55% in industrial products."<sup>46</sup>

Literature refers to various other reasons for underutilization of preferences. For example, while noting that the reasons for underutilization are not widely known, the firm survey referred to above points to the lack of information on RTAs as the most significant reason for this (35%), followed low margins of preference (MOPs) and delays and administrative costs associated with rules of origin (respectively 17% and 15%). Other notable reasons for non-use include the use of other preferential schemes such as export processing zones and the Information Technology Agreement (8%), and non-tariff measures in partner countries (6%) that inhibit exports and hence, use of FTA preferences.

On the compliance costs of rules of origin, beyond the production costs of complying with the requirements – i.e. the need to adapt the production chain to a given mix of products – multiple studies have highlighted the importance of administrative compliance costs. These are incurred both by the producer/exporter – the cost of getting the information and of certifying the product – and by the importer on verification procedures. These costs vary from country to country and depend on numerous elements, e.g. the extent to which "self-certification" exists, the number of RTAs a country is party to, the external exposure of the trade agents involved, the continuous existence of trade flows of a given product between them. Results of these studies have generally shown that administrative compliance costs may account for between 2% to 8% of the value of a shipment, with 5% threshold being widely used as a benchmark. A summary of some of these studies can be found in a 2010 publication by the World Bank.<sup>47</sup>

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<sup>45</sup> Kawai, M., and Wignaraja, G (2010).

<sup>46</sup> European Commission (2012a), available at [http://trade.ec.europa.eu/doclib/docs/2012/january/tradoc\\_148993.pdf](http://trade.ec.europa.eu/doclib/docs/2012/january/tradoc_148993.pdf).

<sup>47</sup> Brenton, P. in World Bank (2010).

The 2012 study published in the WTO Working Paper series concludes that utilization increases with the size of the preferential margin and the export value, but also that many imports with small preferential margins feature high utilization rates. That finding, which is contrary to what has been generally found in other studies, is corroborated in some of the cases described in this study. On the compliance cost element and the threshold of 5%, the authors conclude that "while percentage tariff savings matter, import values have a more important impact on utilization rates."

Finally, in a 2012 study, the Swedish National Board of Trade (2012), though specifically related to trade in textiles, provides a recent review of empirical work on the impact of rules of origin in trade flows - including the innovative work of Estevaderodal and Suominen on a "restrictiveness index" and "facil index" of multiple preferential rules of origin, the Cadot et al study on rules of origin's restrictiveness of the European Union and United States RTAs, and their own work relating to low utilisation of the EBA preferences. The Board summarizes those empirical studies as follows:

- a. rules of origin have a negative impact on trade flows;
- b. restrictiveness in final goods encourages trade in intermediate goods;
- c. cumulation reduces the negative impact of overlapping rules of origin;
- d. limitations, given that rules of origin have a much greater impact on intermediate than on final goods
- e. and, as regards its own study on low use of EBA preferences, "The Board concluded that part of the explanation is that the rules of origin are too strict and hard to comply with for LDCs, and the preference margins of the EBA preferences have been too low."<sup>48</sup>

## 5.2 Use of Preferences in RTAs from the United States<sup>49</sup>

The analysis presented in this sub-section uses 2009-2011 statistics of the United States under HS Chapters 1-97 in terms of value of imports and of applied tariff rates (of its 2011 Harmonized Tariff Schedule), as recorded by the US customs services. All the United States' RTAs that are considered in this study are included - nine bilaterals with Australia, Bahrain, Chile, Israel, Jordan, Morocco, Oman, Peru, Singapore, and two plurilaterals – NAFTA and CAFTA-DR.<sup>50</sup> Except for the analysis based on the tariff schedule, for which the single year of 2011 has been considered, average imports during 2009-2011 has been used. Table 5.1 below indicates the stage of implementation of each of these RTAs.<sup>51</sup>

**Table 5.1 - US RTAs - Stage of Implementation, 2011**

RTAs Fully Implemented	Stage in the Implementation Period			
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
US-Israel	None	US-Bahrain	CAFTA-DR / DR, ES, H, G, N	CAFTA-DR / CR
NAFTA		US-Chile	US-Australia	US-Morocco
US-Jordan		US-Singapore	US-Oman	US-Peru

Source: WTO

Chart 5.1 below provides information on the value of imports by the United States from all of these partners for the years 2009 to 2011, and the corresponding average. Imports have followed an upward trend from 2009 to 2011; import values vary, on average, from US\$266 billion

<sup>48</sup> National Board of Trade (2012). The conclusions listed in a-d are based on Estevadeorda, A.I and Suominen. K. (2005) and Augier et al. (2005). Also referred to is the study of Cadot et al (2005).

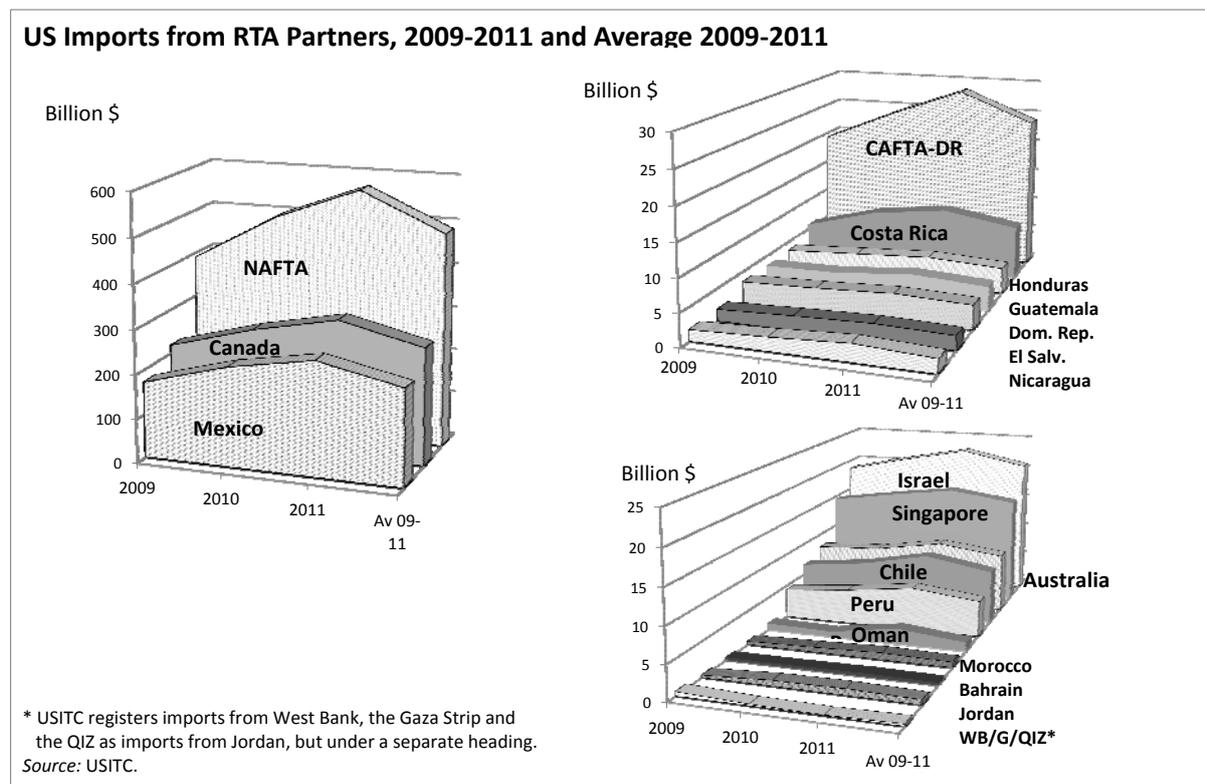
<sup>49</sup> The detailed analysis presented in the paper was possible given the level of disaggregation of publicly-available statistics on preference utilization in RTAs of the United States. All data has been extracted from the Interactive Tariff and Trade and DataWeb of the United States International Trade Commission (USITC), <http://dataweb.usitc.gov> and in [http://www.usitc.gov/tata/hts/bychapter/\\_1101.htm](http://www.usitc.gov/tata/hts/bychapter/_1101.htm).

<sup>50</sup> Yearly, the USTR prepares the *Trade Policy Agenda and Annual Report* of the President on the Trade Agreements Program for submission to the Congress, where information on implementation of these schemes is provided, available online at <http://www.ustr.gov/about-us/press-office/reports-and-publications>.

<sup>51</sup> In the paper, the stage of implementation reflects the transition period applying for the importing party concerned, and not for the RTA as a whole (different transition may apply to different parties).

in the case of Canada to US\$0.4 billion in the case of Bahrain. During this period, only imports from the West Bank, the Gaza Strip and the QIZ, registered in USITC as imports from Jordan though under a separate heading, followed a downward trend, with the ratio of imports from these areas declining from 68% in 2009 to 9% in 2011. A more in-depth analysis of the figures show however that actually, there has not been a decline in the value of imports but rather a modification of the originating status of imported goods, from "West Bank, the Gaza Strip and the QIZ" to "Jordan" (see Annex 2).

Chart 5.1



A global analysis of the use of preferences under the US RTAs is presented in the paragraphs below. Annex 2 presents a more detailed analysis of the preferential rules of origin of the QIZ and US-Jordan agreements, as well as on US preferential rules of origin on textiles and of utilization rates of US RTAs.

Chart 5.2 depicts US imports of products of HS Chapters 1-97 from its bilateral partners in RTAs, disaggregated in terms of programme claimed (e.g. a specific RTA, GSP, Uruguay Round Agreement on Trade in Pharmaceutical Products, etc.) and tariff provision applied (e.g. dutiable under HS 1-97, free into bonded warehouse or FTZ; etc.).<sup>52</sup> Chart 5.3, in turn, is based on the US tariff schedule of 2011, and presents the actual use of preferences in relation to coverage by the RTA. Utilization rates only take into account dutiable trade, thus excluding products that enter MFN duty-free.<sup>53</sup>

Figures related to MFN duty-free imports may in some cases differ in Charts 5.2 and 5.3, mainly because imports under the special rate for "warehouses and free-trade zones" benefit from duty-free treatment, even if not duty free in the US tariff schedule.<sup>54</sup> Their relevance in terms of import value is also depicted in Chart 5.3, varying from negligible in the case of e.g. Bahrain to more than 10% for Mexico, Morocco, Oman and Peru. For all countries concerned, products imported under this special rate are mainly petroleum oils (Australia, Canada, Mexico, Oman,

<sup>52</sup> The programs can be found at [http://dataweb.usitc.gov/scripts/gsp/gsp\\_tariff.asp](http://dataweb.usitc.gov/scripts/gsp/gsp_tariff.asp) and the rate provisions in <http://www.census.gov/foreign-trade/reference/codes/rp.html>.

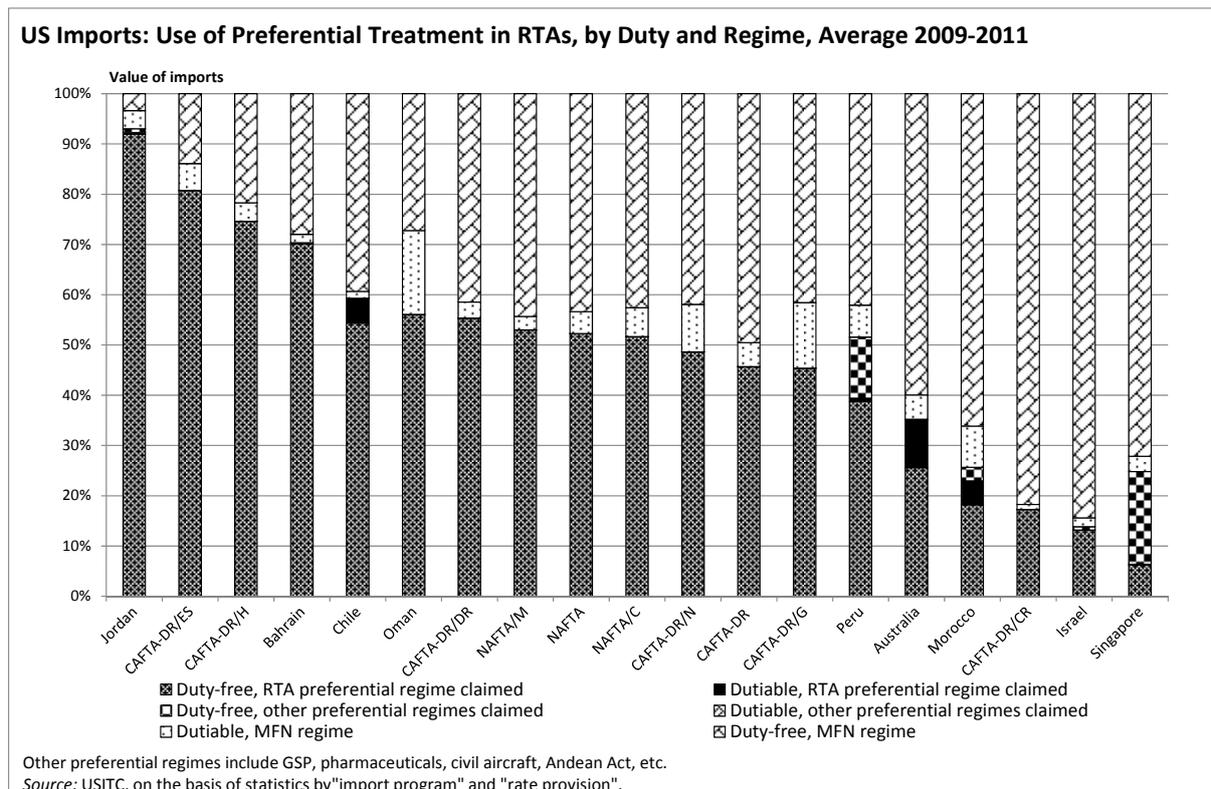
<sup>53</sup> That is because it is assumed that when MFN is zero, no preference is claimed under the RTA.

<sup>54</sup> E.g. for Oman in 2011, MFN duty-free concerned 23% in the first Chart but only 9% in the second Chart. That way of considering imports from warehouses is a world-wide general practice.

Peru), and to a lesser extent tobacco and footwear (Dominican Republic), machinery (Singapore) and electrical machinery (Dominican Republic, Honduras, Morocco and Singapore).

In Chart 5.2, the ratio of duty-free preferential treatment claimed under the RTA varies from more than 90% of total imports from Jordan to less than 10% for Singapore. As for the ratio of MFN duty-free trade, this is above 70% for Israel, Costa Rica and Singapore, while it does not reach 5% for Jordan. These two figures are normally interlinked - the higher the percentage of imports under MFN duty-free, the lower the use of preferential regimes. Also of special interest in this analysis are imports that have entered the US under preferential regimes other than the RTA concerned - of particular relevance to Singapore, Peru and to a lesser extent Morocco (18%, 12% and 3% of imports, respectively) - and those imports that entered under MFN dutiable - of particular relevance for Oman, Guatemala, Nicaragua and Morocco (17%, 13%, 10% and 8% of imports, respectively).

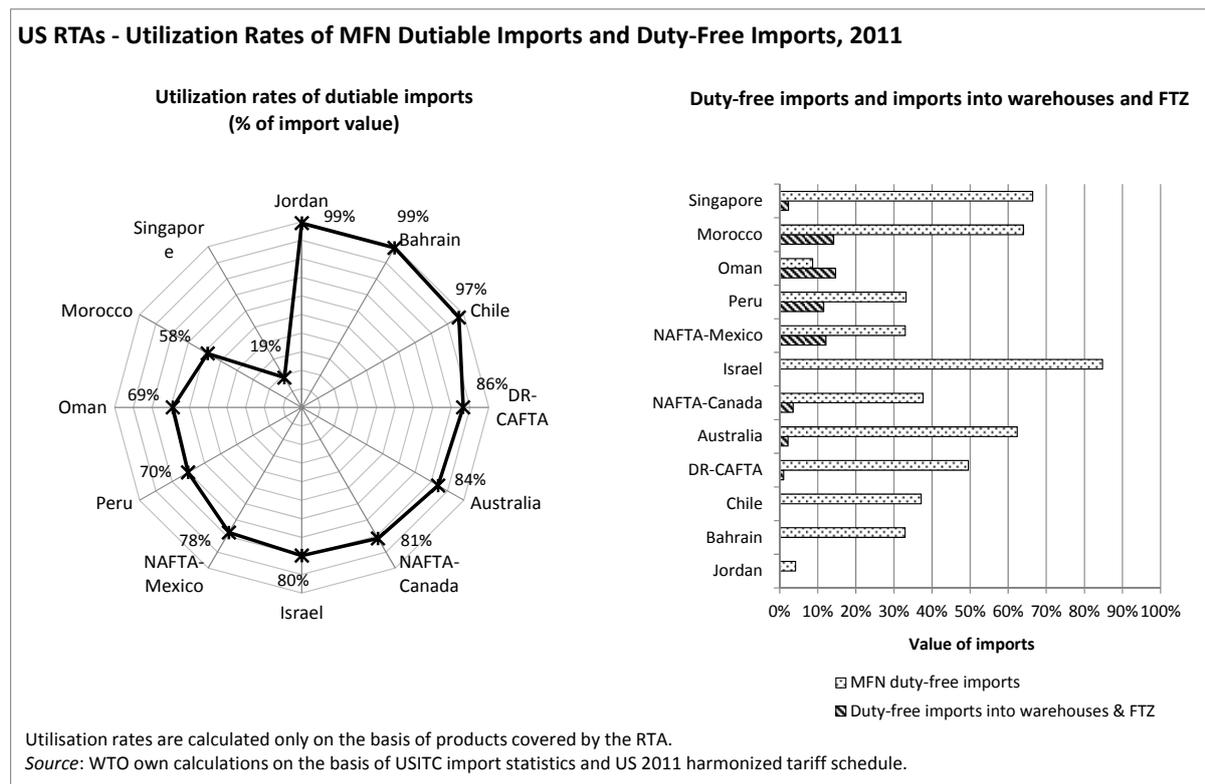
Chart 5.2



In Chart 5.3, MFN duty-free imports have been excluded from the calculations; thus, the utilization rate only refers to dutiable imports that could, according to the RTA's liberalization schedule, benefit from preferential treatment. It shows that the actual use of preferences in relation to the coverage of the RTA varies from almost full utilization - Jordan and Bahrain - to less than 20% in the case of Singapore. A very high level of utilization of preferences occurs in the RTA with Chile (97%); three relations are below 70% and the remaining six in between 87% and 70%. The low utilization rate in the case of Singapore is due to the fact that around 67% of MFN dutiable imports from Singapore actually enter duty-free under the trade in pharmaceuticals regime and 1% additional under the civil aircraft regime. In analysing these results, the distortive effects of "warehouses and free-trade zones", as explained above, have to be taken into account.

Three groups of products have a significant impact on the utilization rates, depending on the RTA: textiles, petroleum and automotive products. Utilization rates of textiles imports are of major relevance for the RTAs with Jordan, Bahrain, CAFTA-DR, Morocco (see Table 5.2 for a summary of the US RTAs rules of origin for textiles). Utilization rates for petroleum and petroleum oils have a high incidence in global utilization rates in the following RTAs: Mexico in NAFTA, Australia, Oman and Peru. Automotive import is also of relevance under NAFTA and with Australia.

Chart 5.3



Chile represents a peculiar case, with around half of qualifying imports being of refined copper cathodes (7403.11.00) with MFN imports representing less than 1% of the total. Given that the MFN rate is only 1%, that is a surprisingly high utilization rate. Also surprising is that around 90% of wine imports of heading 2204.21.50 enter under the RTA, even if no preferential treatment was provided for in 2011 - actually, the MFN rate applies until 2014 and full liberalization is foreseen in 2015. For wine from Australia, a similar situation occurs - around 90% of wine imports enter under the RTA, even if preferential treatment (duty-free) only apply as from 2015.

The bias of free-trade zones and warehouses also explains the relatively lower utilization rates of Mexico in NAFTA, and of Peru and Oman.

Table 5.2 - Summary of US RTAs Rules of Origin for Textiles

Criteria	Australia	Bahrain	CAFTA-DR	Chile	Israel	Jordan	Morocco	NAFTA	Oman	Peru	Singapore
Yarn-forward	√	√	√	√			√	√	√	√	√
35% Value-Added Rule <sup>a</sup>					√	√					
Tolerance rule (in % of total weight)	7	7	10	7			7	7	7	10	7
No tolerance rule					√	√					
No Tariff-preference level (TPL)	√				√	√				√	
Temporary TPL - years		10	10 CR&N				10		10		8
Permanent TPL				√				√			
Diagonal cumulation in certain cases			√ <sup>c</sup>				√ <sup>d</sup>			√ <sup>c,e</sup>	
Non-originating fibers/yarns/fabrics allowed if incorporated into certain goods <sup>b</sup>			√	√				√		√	√
Short-supply list allowing temporary use of non-originating fibers/yarns/fabrics			√					√		√	√
Exceptions: fiber or fabric forward	√	√	√	√			√	√	√	√	√
Originating thread, narrow elastic fabrics, visible linings and pockets required			√							√	
OP arrangement (OPA)											√

Notes:

Yarn forward - yarn production and all operations forward occur in the parties to the RTA.

Tolerance rule does not apply to elastomeric yarn, which has to be originating.

CR&N Costa Rica and Nicaragua.

TPL Allows the use of yarn and fabric from non-RTA parties; it is always subject to a limitation on quantity of non-originating material.

OPA Subsidiary or minor processes of textile or apparel goods can be processed outside the territory of a Party without affecting the originating status of the textile or apparel good.

<sup>a</sup> The value-added of the other party in the RTA can count up to a maximum of 15%.

<sup>b</sup> Provided a single substantial transformation takes place in a party.

<sup>c</sup> Diagonal cumulation, up to certain limits, of certain Mexican yarns and fabric used on certain woven apparel cut-and-assembled in the parties, and of certain nylon filament yarns, other than elastomeric nylon filament yarn, from Mexico, Canada, and Israel. In 2012, DR lost cumulation eligibility.

<sup>d</sup> Diagonal cumulation for a limited amount of cotton fibers from least-developed sub-Saharan African countries.

<sup>e</sup> Article 3.14 foresees the opening of discussions for diagonal cumulation with countries of the region.

Source: RTAs texts.

For Singapore, a very low utilization rate is mainly due to imports under other preferential regimes – almost one-fifth of the total, and increasing during 2009-11 – and almost exclusively to the Uruguay Round Agreement on Trade in Pharmaceutical Products,<sup>55</sup> even if these products are also covered by the US-Singapore RTA. In both cases, these products are duty-free;<sup>56</sup> for the former, the only requirement is that the product is listed in the annex to the Uruguay Round Agreement, while for the latter the product has to comply with the rules of origin (for Chapter 30, origin normally requires that the product is the result of a chemical reaction); on the other side, imports under the RTA are exempted from the payment in the US of the merchandise processing fee, amounting to 0.21%, while that is not the case under the pharmaceutical import regime. In the absence of further information, however, it is not possible to determine the reason for claims under the pharmaceutical import regime.

For Peru, other regimes claimed include the Andean Trade Preference Act (ATPA) and Andean Trade Promotion and Drug Eradication Act (ATPDEA) and, to a much smaller extent, GSP (which ceased in 2009). With the entry into force of the US-Peru RTA in 2009, Peru lost its eligibility under the ATPA/ATPDEA; some imports under these programmes were still reported in 2010 but became negligible in 2011 - from an amount that represented almost one-third of imports from Peru in 2009. These imports concerned in particular fresh or chilled asparagus; naphthas and distilled fuel oil; shirts, t-shirts and cotton sweaters; and refined copper cathodes (respectively HS Chapters 7, 27, 61 and 74). Three main changes can be identified as regards rules of origin of these regimes: (i) the ATPA/ATPDEA basic rule is a minimum value-added requirement of 35%, with a maximum participation of 15% from the US, while in the RTA the basic rule is a change of tariff classification; when value-added is used, generally the same threshold of 35% applies but there is no limitation on the use of US materials; (ii) cumulation in ATPA/ATPDEA is with all beneficiaries of this program and of the Caribbean Basin Initiative, while in the RTA diagonal cumulation applies only in very special cases;<sup>57</sup> (iii) a general tolerance rule applies to non-originating materials up to 10% of the value of the good in the RTA - or weight in the case of textiles; for ATPDEA, the tolerance rule only applied to textiles and the threshold was 7% of total weight of the product;<sup>58</sup> and (iv) for textiles, nylon filament yarns from Canada, Mexico and Israel can be cumulated under both regimes while elastomeric yarns from any country were allowed in ATPDEA but only those of US and Peru in the case of the RTA.

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<sup>55</sup> The Agreement on Trade in Pharmaceutical Products is a "zero-for-zero initiative" concluded during the Uruguay Round, upon which a certain subset of GATT contracting parties have agreed to eliminate, on an MFN basis, tariffs on approximately 7,000 pharmaceutical products, their derivatives and certain chemical intermediates used to manufacture pharmaceuticals, all of which are included in an Annex, which has been updated regularly. These products can be imported either as bulk active ingredients or in dosage forms that can be packaged for retail sale. In the US tariff, dosage forms are generally classified under HS Chapter 30, where most of the subheadings are duty-free, while many of the bulk pharmaceutical active ingredients and chemical intermediates are classified under HS subheadings that also contain non-pharmaceutical products and have rates of duty ranging from 0 to 6.5%. In order for pharmaceutical products classified under these HTS subheadings to be imported free of duty, they must be listed in the Appendix. Information extracted from <http://www.usitc.gov/publications/332/pub4181.pdf>

<sup>56</sup> In the RTA, duty-free is applicable from its entry into force in 2004 except for one tariff line which became duty-free in 2008.

<sup>57</sup> See note c of Table 5.2.

<sup>58</sup> Based on information included in Information US-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects, USITC, May 2006, available on <http://www.usitc.gov/publications/332/pub3855.pdf>.

In attempting to extrapolate facts presented above, the following could be said:

- a. it would appear that the use of the RTA preferential treatment is not directly correlated to the stage of implementation of the RTA: for example, (i) NAFTA and US-Israel, which are fully implemented, have approximately the same utilization rate (around 80% in 2011) as US-Australia, which was only in the middle of its implementation period; (ii) under CAFTA-DR, El Salvador and Honduras are both in the middle of their implementation periods but preferential treatment applies to 80% of imports of the former but only 45% of the latter;
- b. as already noted, utilization rates of textiles preferences are of major relevance in many RTAs. A joint analysis of the above and of Annex 2 shows that the highest utilization rates applying to textiles are from imports from Middle East countries, followed by a subset of CAFTA-DR partners. The United States has explicitly recognized its objective of establishing a supply chain within CAFTA-DR region; as regards RTAs with Middle East countries, a similar situation might also be occurring;
- c. the existence of other preferential schemes divert exports from the RTA (e.g. pharmaceuticals from Singapore). The question is therefore why rules of origin under an RTA could not be such that they would automatically be the most liberal among the preferential schemes.
- d. no clear conclusion can be reached as regards correlation between utilization rates and margins of preference.

### 5.3 Use of Preferences in RTAs from the European Union

The European Union has a large array of RTAs, the vast majority of which are considered in the study - namely 27 bilateral RTAs and 1 plurilateral RTA. By 2011 - year for which statistics concerning the use of preferences are publicly available - all RTAs except the ones with Chile, Cameroon, Côte d'Ivoire and CARIFORUM were already fully implemented (the former was at the fourth stage of implementation and the other three in the third stage).

Bilateral trade between the EU and its partners in RTAs is depicted in Table 5.3; it varies from €91 billion in the case of Switzerland to €10 million in the case of the Palestinian Authority.

**Table 5.3 EU Imports from RTA Partners, 2011**

Partners	Imports (million €)	Partners	Imports (million €)
Palestinian Authority	10.5	CARIFORUM	3,365.9
Andorra	26.4	Serbia	4,799.6
San Marino	71.1	Croatia	5,448.2
Montenegro	219.6	Morocco	8,581.7
Jordan	310.7	Egypt	9,403.1
Lebanon	409.2	Tunisia	9,860.9
Faroe Islands	494.3	Chile	10,848.0
Albania	942.6	Israel	12,578.3
FYROM	2,088.9	Mexico	16,404.8
Cameroon	2,165.6	South Africa	20,185.4
Bosnia & Herzegovina	2,400.3	Algeria	21,179.2
Iceland	2,811.0	Turkey	47,810.5
Syria	3,062.5	Norway	74,702.4
Côte d'Ivoire	3,177.9	Switzerland	90,900.7

Note: Covers HS chapters 1-97; all trade regimes.  
Source: Eurostat database.

In an European Commission Staff Working Document, it has been explicitly noted that the Commission has been more recently focusing on "the question of whether, and to what extent, EU initiatives are achieving their policy objectives", with ex-post analysis being done on the GSP (resulting in its revised preferential rules of origin) and on the effects of the trade pillar of the EU-Chile association agreement, in the context of a "more systematic evaluation of the effects of the

EU's existing trade agreements.<sup>59</sup> A 2012 study on the EU-Chile RTA made for the European Commission<sup>60</sup> highlights that:

- a. the two largest sectors of EU's imports from Chile, copper and ores, are almost exclusively comprised of non-dutiable products;
- b. dutiable preferential imports were dominated by fruits, followed by alcoholic beverages, fish, crustaceans and their products, and other manufactured products; and
- c. "the rate of utilisation of preferences was rather low in the year following the entry into force of the EU-Chile FTA (lower than 80% during most of the year), presumably reflecting the need to adapt to the new regime. Later on, utilisation fluctuated most of the time between 75% and 95%. Underutilisation is mainly linked to fruits, where it is seasonally recurrent,<sup>61</sup> and to other manufactured products, mainly between 2005 and 2007." (*original footnote*)

Given that the only official study is that of the EU-Chile RTA, the analysis herein provides an alternative source of information. Eurostat statistics - matching tariffs and import statistics - have been used for this analysis.<sup>62</sup> Imports considered are those under all of the EU's defined import regimes,<sup>63</sup> with a distinction made between whether or not the import was eligible for a preferential regime - RTAs, GSP or any other preferential scheme - and the actual regime under which the goods were imported. The methodology used by the EU in matching the data involves the following:

- d. breakdown by type of preference is not available and information refers to preferential trade under all preferential schemes that each RTA partner can benefit from when exporting to the EU - thus including preferences under the RTA only, but also under schemes such as GSP. This applies to all RTAs involving developing economies except those of Chile, Israel, Palestinian Authority and Turkey, which do not benefit from other preferential schemes;
- e. in cases where the MFN is duty-free, the product is automatically considered as imported under the MFN duty-free regime, even if a preferential regime had been claimed;
- f. data on the actual regime used is based on comparing the import regime requested with its eligibility; if they are compatible, it is assumed that the product entered under the requested regime. The EU explains that "This is an approximation, of course, as the information on whether the product effectively obtained the requested regime is not collected. However, tests on sample by member states have shown that the difference is not significant while a comprehensive collection would prove too costly."

Chart 5.4 presents the EU imports from the 41 partners of the EU parties to the 28 RTAs considered, disaggregated by duty-paid, preference eligibility and actual regime used. Out of these 28 RTAs, 14 are part of the PanEuroMed, though three do not yet benefit from diagonal cumulation

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<sup>59</sup> *Supra*, footnote 46.

<sup>60</sup> ITAQA (2012) for the European Commission, Directorate General for Trade, available at <http://ec.europa.eu/trade/analysis/policy-evaluation/>. The analysis of the import data was made on the basis of EU(15) trade data.

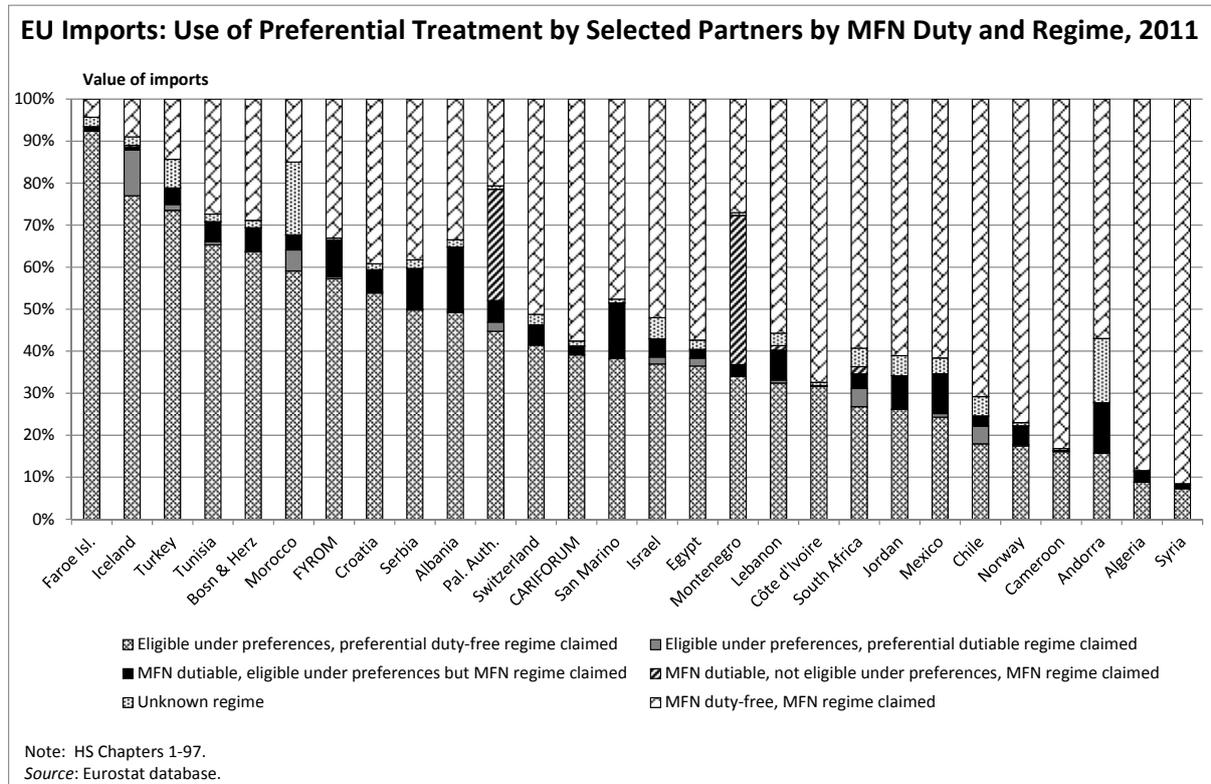
<sup>61</sup> When tariffs are seasonal, commitments are defined separately for each period considered in the tariff schedule. For several fruits and vegetables, tariffs are liberalised for most, but not all, periods; the product is considered as eligible to a preferential treatment, but logically imports enter under the MFN regime in those periods for which the FTA does not include a liberalisation commitment. As a matter of fact, underutilisation of preferences is actually limited to some fresh fruits (grapes, kiwifruits, apples, pears, plums, nectarines).

<sup>62</sup> Available at <http://epp.eurostat.ec.europa.eu/newxtweb>, by requesting available datasets, international trade and then "Adjusted EU-EXTRA Imports by tariff regime, by CN8". Information regarding the EU methodology is available at Easy Comext FAQ at <http://epp.eurostat.ec.europa.eu/newxtweb/setuphelp.do?keepsessionkey=true>

<sup>63</sup> The most important being the normal regime; other regimes are inward and outward processing and outward processing for textiles. For the RTAs concerned, normal regime represent more than 90% of imports except for Albania, Andorra, FYROM, Israel and San Marino - the minimum being San Marino with only 72% of imports under the normal regime.

and six are in the SAP. Among the 14 PanEuroMed RTAs, rules of origin are common; they are virtually the same also among the 6 SAP countries.

Chart 5.4



It can be seen that the best preferential treatment - i.e. imports entering the EU under a preferential duty-free regime - applies, at one end of the spectrum, to 92% of imports from the Faroe Islands, with imports from Syria at the other extreme and only benefitting from this treatment for 7% of its imports.<sup>64</sup> Concomitantly, the other major category relates to imports under MFN duty-free, with the same countries at the extremes - 4% and 92% respectively for Faroe Islands and Syria. Imports under dutiable preferential terms generally represent less than 5% of imports, except in the case of Iceland and Morocco.

Beyond imports entering under preferential treatment, the other category of particular relevance to the study is the "MFN dutiable, eligible under preferences but MFN regime claimed"<sup>65</sup> category - representing less than 5% of imports for seventeen RTAs, between 5% and 10% of imports for other 8 RTAs, and finally between 12% and 15% for Andorra, San Marino and Albania.

Chart 5.5 shows utilization rates of the preferential schemes. Almost full utilization occurs for Côte d'Ivoire, Faroe Islands and Iceland; underutilization of more than a quarter of the preferences occur with 3 partners - San Marino, Mexico and Andorra. The importance of MFN duty-free trade is also disparate among these partners.

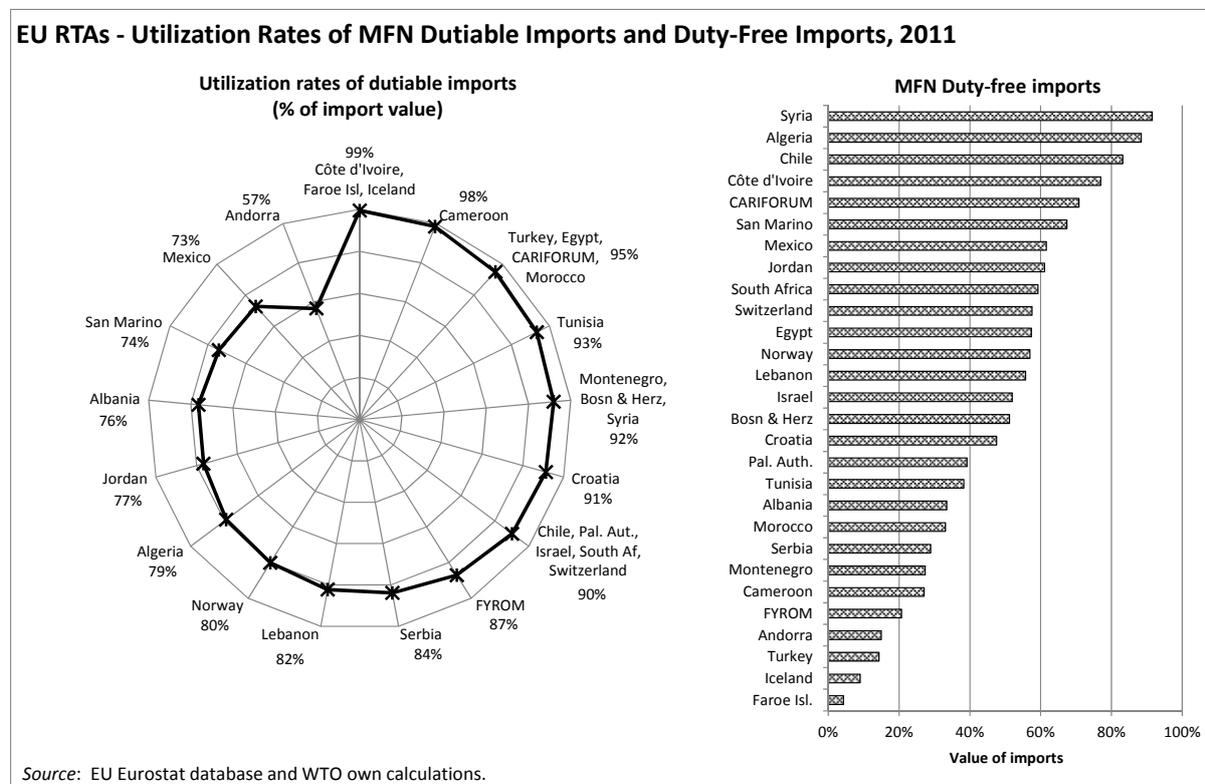
Different types of cumulation regimes apply to the 28 RTAs concerned; a parallel analysis of these regimes with the utilization rates, however, does not lead to clear conclusions - e.g. Algeria, Morocco and Tunisia benefit all from full cumulation and the diagonal PanEuroMed cumulation but the utilization rate for the former is much lower than for the other two; exactly the same situation applies to Iceland and Norway but while Iceland makes almost full use of its preferences, Norway's underutilization reaches 20%. Besides, as already noted, all these five RTAs - and actually 14 out of the 28 considered - apply exactly the same rules of origin. In the

<sup>64</sup> The RTA with Syria dates back from 1977 and is the only old EU co-operation agreement still in force among the 28 RTAs considered.

<sup>65</sup> The category "MFN dutiable, not eligible under preferences, MFN regime claimed" gives indication of the coverage of the RTA/preferential schemes involved at a given year.

Americas, Mexico and Chile can only make use of bilateral cumulation but differences in utilization rates are also significant. Andorra and San Marino do not benefit from diagonal cumulation when exporting to the EU; their situation is however currently being reviewed on grounds of "a possible new institutional framework for relations" between them and the EU.<sup>66</sup>

Chart 5.5



A detailed analysis of imports from Mexico shows that more than half of the underutilized preferences are of HS Chapters 84 and 85 - with preferences for switching electrical apparatus of HS 8536, microphones and loudspeakers of HS 8518 and insulated wires and cables of HS 8544 being among the most underutilized. Their MFN tariffs vary from duty-free to 4.5%, while they enter duty-free under both the RTA and the GSP. In most cases, the RTA rules of origin require (i) either a maximum import content of generally 30% (though threshold of 25%, 40% and 50% may also occur) or (ii) provide for a combination of a change in tariff nomenclature combined with a maximum import content of 40%; and (iii) provide for a tolerance rule of 10%. GSP rules of origin would appear more liberal, with a tolerance rule of 15% and higher import content allowance - 50% if only the value-added criterion applies - or alternatively a change in tariff nomenclature.

In the context of this paper, attempting to reach a conclusion as regards the implication of rules of origin on the use of preferences for EU RTAs is made even more difficult because of the inclusion of all preferences in Eurostat statistics, in particular for countries that can benefit from GSP and its 2011 reform that allows for a significantly extended cumulation regime. However, the EU own statement on the correlation found between the stringency of GSP rules of origin and the utilisation rates of the preferences, their complicated nature, and costs and burden associated with complying with them may in this instance suffice as a conclusion.<sup>67</sup>

<sup>66</sup> European Commission (2012b), available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0680:FIN:EN:PDF>

<sup>67</sup> *Supra*, footnote 46.

### 5.4 Use of Preferences in RTAs from China

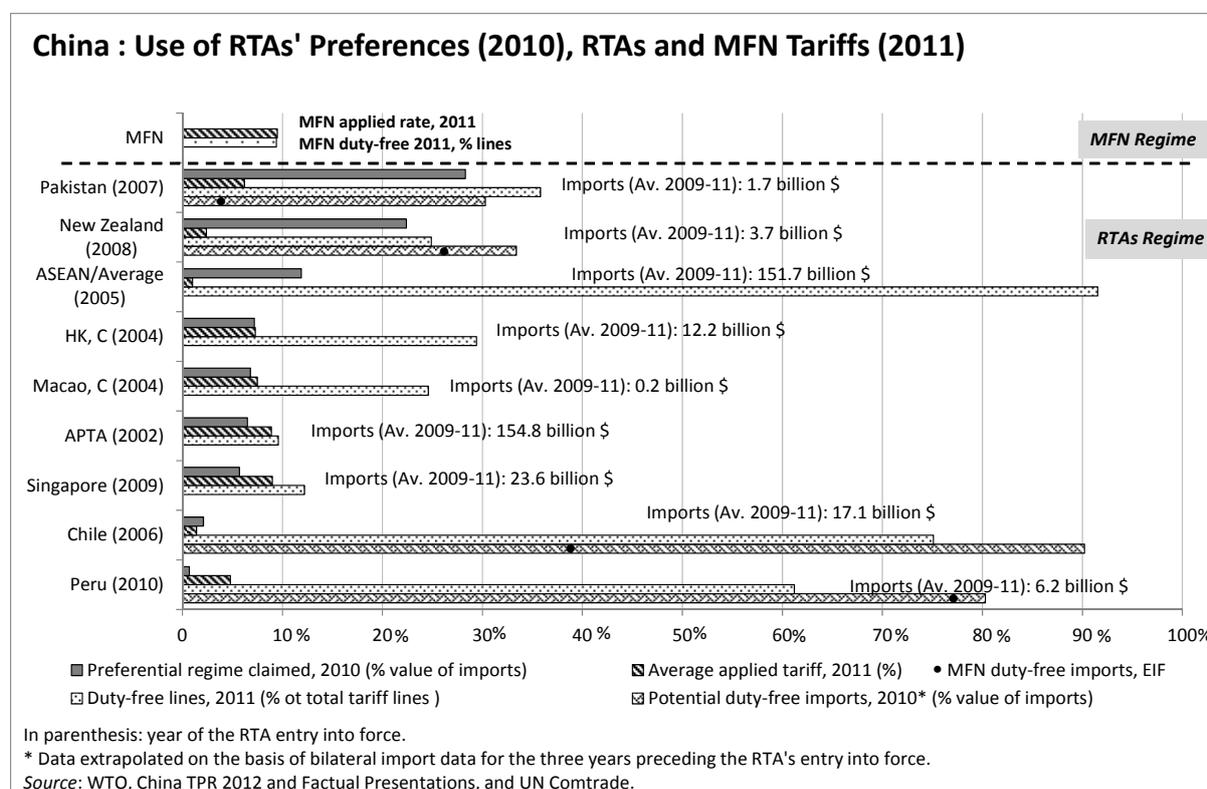
Table 5.4 - China RTAs - Stage of Implementation, 2010

RTAs Fully Implemented	Stage in the Implementation Period			
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
APTA China-Hong Kong, China China-Macao, China China - Singapore	China- Pakistan	None	China-ASEAN China-Chile	China-New Zealand China-Peru

Source: WTO

Data on the use of preferences under the RTAs has been supplied by Chinese authorities in the context of the China's 2012 Trade Policy Review Mechanism (TPRM).<sup>68</sup> Data available are however very aggregate - i.e. only the share of total trade entering preferentially from the RTA partner(s) was provided for 2010; this information is presented in Chart 5.6 below. Other information that can help to analyse such aggregate data is also presented in the Chart; these are, for each RTA, the average applied rate and the percentage of duty-free lines in 2011,<sup>69</sup> and, for those 4 RTAs for which a WTO Secretariat Factual Presentation is available,<sup>70</sup> the potential 2010 share of duty-free imports, based on bilateral import data for the three years preceding the RTA's entry into force, and the value of MFN duty-free imports at the time of the RTA's entry into force.

Chart 5.6



It can be seen that the use of preferences by China's partners in RTAs is generally very modest, with only two partners - Pakistan and New Zealand - having preference utilization rates of between 20% and 30% of their exports to China, partners under ASEAN had utilization rates of 12% while utilization rates of all other partners was below 8%, including in the case of the two SARs of China. The stage of implementation of these RTAs (see Table 5.4) does not seem to be of relevance - Pakistan and New Zealand make the greatest use of their preferences, but while the

<sup>68</sup> See WT/TPR/S/264/Rev.1. It is assumed that imports benefitting from MFN duty-free are not computed in these figures.

<sup>69</sup> Both figures have been calculated by the WTO Secretariat also in the context of 2012 China's TPR.

<sup>70</sup> Factual Presentations of China-Chile, Pakistan, New Zealand and Peru (WT/REG230/1, WT/REG237/1, WT/REG266/1 and WT/REG281/1, respectively).

former is in the last stage of implementation, the latter is in the first stage; also, all RTAs that are fully implemented have utilization rates that are below 8%.

The additional information in the Chart raises further questions about the low use of preferences. Data show that the actual elimination of tariffs under the RTA is not correlated with the use of preferences - ASEAN and Chile, for example, benefit from respectively 92% and 75% of China's tariff being duty-free in 2011 (compared to 9% of the lines for MFN imports), but have very low use of preferences; conversely, Pakistan and New Zealand benefit from a much smaller percentage of duty-free lines - 36% and 25%, respectively - but have the highest use of preferences.

In terms of potential and actual trade under preferences,<sup>71</sup> while potentially around half of China's imports from Chile could be preferential, only 1.4% of imports actually benefitted from preferences. More than three-quarters of imports into China from Peru entered MFN duty-free; the additional potential liberalization for 2010 (which coincides with the RTA's entry into force) could cover 3.3% of imports and the actual situation has seen preferences being claimed for 0.7% of imports. Once more, the RTAs with Pakistan and New Zealand show greater use of preferences: for Pakistan, it had been estimated that by 2010 about one-quarter of imports could benefit from the RTA, and the figures provided by China show that this has been the case for more than one-third of imports. The RTA with New Zealand shows that in 2010, in addition to MFN duty-free, 8% of imports could potentially benefit from preferences; data shows however that preferential imports have actually reached around three times that figure.

The rules of origin in five of the nine Chinese RTAs considered in this study - APTA and RTAs with ASEAN, Chile, Pakistan and Singapore - are based on value-added requirements;<sup>72</sup> the other five use multiple criteria, including value-added, change of tariff classification or processing requirements.<sup>73</sup> In terms of value-added, the lowest threshold - 30% of regional content - is applied in the RTAs with Hong Kong, China and Macao, China, and the highest - 55% - in the case of APTA, except that for LDCs it is reduced to 45%. The threshold for the RTA with Peru is 50%; for some products, this is reduced to 40%. The threshold of 40% is applied in the RTAs with ASEAN, Chile, New Zealand (for some products a ceiling of 30%, 45% and 50% applies instead), Pakistan and Singapore. Tolerance rules apply in the RTAs with Chile, New Zealand, Peru and Singapore, at a maximum of 8% of the product value in the case of Chile, and of 10% in the other three RTAs. Bilateral cumulation and the absorption principle applies in all RTAs.

A general conclusion regarding China's RTAs is the relatively low use of preferences, with a slightly better situation for the RTAs with Pakistan and New Zealand. Testing various hypothesis for that scenario leads to no conclusion. It is not possible to reach conclusions on effects of rules of origin on trade flows - e.g. the relatively simple and liberal 30% domestic content requirement of the RTA with Hong Kong, China is less used than the Pakistani, which has a higher threshold of domestic content. And it cannot be said that the reasons for a virtually negligible use of preferences by Chile and Peru are to be mainly attributed to an eventual "stringency" of the rules of origin, as e.g. a 40% domestic content requirement is generally not considered as over-protective. Neither the question of geographical proximity/distance, or of lack of exposure to international trade, provide any additional explanation to this situation. Replies may therefore be found in other fields - e.g. the magnitude of margins of preference overall (see Section 6.2 , availability of information on preferences, magnitude of exports and compliance costs.

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<sup>71</sup> These figures have been calculated using the Secretariat's information in the Factual Presentation , by deducting from the 2010 (potential) duty-free imports the value of MFN duty-free imports at the time of the RTA's entry into force. Of course, this is a static analysis, since it does not take into account the change of trade profiles that might have occurred between the RTA's entry into force and 2010 - a time gap varying from 4 years in the case of Chile to none in the case of Peru.

<sup>72</sup> In the RTA with Chile and Singapore, for some products, other specific criteria may apply.

<sup>73</sup> In the absence of tariff line information on the use of preferences, only a general overview of the RTAs preferential rules of origin is provided.

## 5.5 Use of Preferences in RTAs from Panama

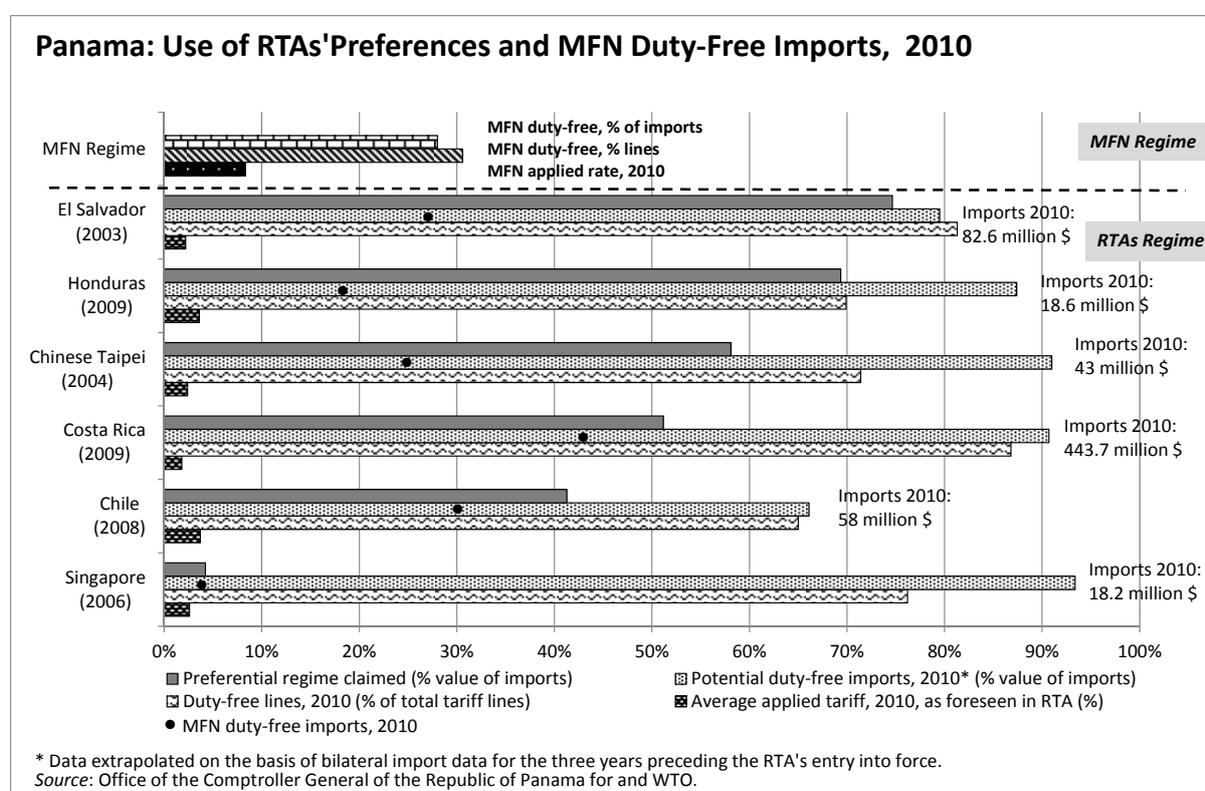
**Table 5.5- Panama's RTAs - Stage of Implementation, 2010**

RTAs Fully Implemented	Stage in the Implementation Period			
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
None	None	Panama - Chinese Taipei Panama - El Salvador	Panama - Singapore	Panama - Chile Panama - Costa Rica Panama - Honduras

Source: WTO.

As regards Panama, official 2010 import statistics show that the use of preferences in the RTAs considered vary from 4% for Singapore to 75% for El Salvador under the bilateral Protocol to the Panama-Central America Free Trade Treaty (see Chart 5.7).<sup>74</sup> The use of preferences by Honduras, also a signatory of this Treaty but with preferences negotiated in a different bilateral Protocol, is somewhat below, reaching 69%. The use of preferences by Chile - 41% - and specially by Singapore - 4% - are at the other end of the spectrum. The stage of implementation of the RTAs (see Table 5.5) does not seem to be directly relevant to these figures.

**Chart 5.7**



When trade carried under MFN duty-free in 2010 is added to the trade under preferences, it can be seen that actual imports under all RTAs, except with Singapore and Chinese Taipei, have bypassed potential duty-free imports, and that more than 85% of imports from Central American countries benefit from duty-free treatment.

Rules of origin of the Panama-Central America Free Trade Treaty are either common to all Parties or apply bilaterally in the context of the Treaty's bilateral protocols. This fragmentation of specific rules of origin results in originating status being granted on different grounds among parties to a single Agreement. This fragmentation is also reflected in cumulation provisions, whereby cumulation among all parties is only applied if (a) rules of origin are common to all Parties; or (b) product-specific rules of origin and tariff elimination programme are common to a group of no fewer than three countries. This appears as a rather complicated system, taking into

<sup>74</sup> Figures from the Office of the Comptroller General of the Republic of Panama; reports can be accessed online at <http://190.34.178.20/ComercioExterior/importa.htm>.

account existing integration of Central American Common Market; this however does not seem to have an such a negative impact on trade given the relatively high percentages of duty-free trade.

The case of Singapore is by far the less favourable as regards non realization of expected liberalization under the agreement. Duty-free imports do not reach 10%, with only 4% of imports getting preferences - when duty-free imports had been estimated to reach 93% in 2010. At that same year, the average applied rate under the RTA was 2.6%, compared to an average MFN rate at 8.3%, thus providing on average a margin of preference of 5.7 percentage points. All these figures are intriguing and merit further analysis. A detailed analysis of import data shows that around half of the 2010 imports from Singapore takes place under two tariff lines - apparatus for transmission or reception of voice, images or other data under HS 8517.61.00, 8517.62.90 - that are duty-free under the RTA as from its entry into force but face an MFN rate of 5%. Products of HS 8517 have however entered Panama under the MFN regime, and not under the preferential regime, which requires 35% domestic content but which also allows OP under certain conditions.<sup>75</sup> Given the trade volume involved, and the amount of duties that could have been saved, the most viable explanation would be the impossibility of meeting rules of origin. At the other side, when imports under the RTA are considered, a peculiar situation is that the major three imports, amounting to around half of the imports under the RTA - food preparations containing cocoa of HS 1806.20.00, jewellery under HS 7113.19.00 and primary cells and batteries of HS 8506.80.19 - which benefit from duty-free under the Agreement (from MFN rates of 15%, 10% and 5% respectively) - have, according to publicly available data, paid nevertheless the customs duty. It is thus difficult to know without doubt if these imports were or not able to qualify under the RTA's rules of origin.

## 5.6 Use of Preferences in RTAs in the LAIA Framework

The LAIA Secretariat publishes annually a report on the evolution of the trade among LAIA member countries.<sup>76</sup> The most recent report (December 2011) indicates that in 2010, 77.1% of intra-LAIA trade made use of preferences (from 70.7% in 1997 and 52.1% in 1993). At a higher level of disaggregation by type of Agreement, the study indicates that the use of preferences in the context of LAIA's RTAs is significantly higher for free-trade agreements (89% in 2010, up from 85.6% in 1998 and 56.2% in 1993) than for other agreements of a smaller scope<sup>77</sup> - reaching 64.1% in 2010 (from 65.3% in 1993). LAIA points to two main reasons for this - greater coverage of products (in 2010, of 73.3% of tariff lines for the FTAs and of 12.9% for the others) and deeper liberalization in FTAs as compared to the other agreements.

Chart 5.8 provides details on the use of preferences in 2010 for four RTAs under the LAIA framework that have been notified to the WTO and which are considered in this study - MERCOSUR (including also automotive regimes regulated in bilateral arrangements), Chile with Colombia and Mexico, and Colombia-Mexico. Information is extracted from the LAIA 2011 Report, with the exception of imports under MFN duty-free, sourced from the WTO Secretariat. All of these RTAs were fully implemented by 2010, with the exception of Chile-Colombia that was in its third state of implementation. The following caveats apply in analysing the Chart:

- a. LAIA's report is based on the use of preferential regime as reported by the LAIA members, with the exception - for the RTAs concerned - of Mexico and Paraguay, for which trade has been assigned by the LAIA Secretariat;
- b. the LAIA's Secretariat methodology for such assignment is that all imports of products eligible for preferences are assigned as trade under preferential regime, including those products duty-free on an MFN basis. In its report, the LAIA Secretariat states in particular that assignment of trade disregards any other factors that could render impossible or work against the use of the preferences, such as the rules of origin or lack of knowledge of the preferences. This methodology thus tends to overestimate the use

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<sup>75</sup> Article 3.6.2 of the Agreement allows OP in the manufacturing process for certain goods (such as electric irons). In such cases, these goods will qualify for preferential treatment even if they have undergone processes of production or other operations outside the territory of a Party, provided they are returned to the Party before export. As explained by Singaporean authorities, see [http://www.fta.gov.sg/fta\\_psfta.asp?hl=10](http://www.fta.gov.sg/fta_psfta.asp?hl=10).

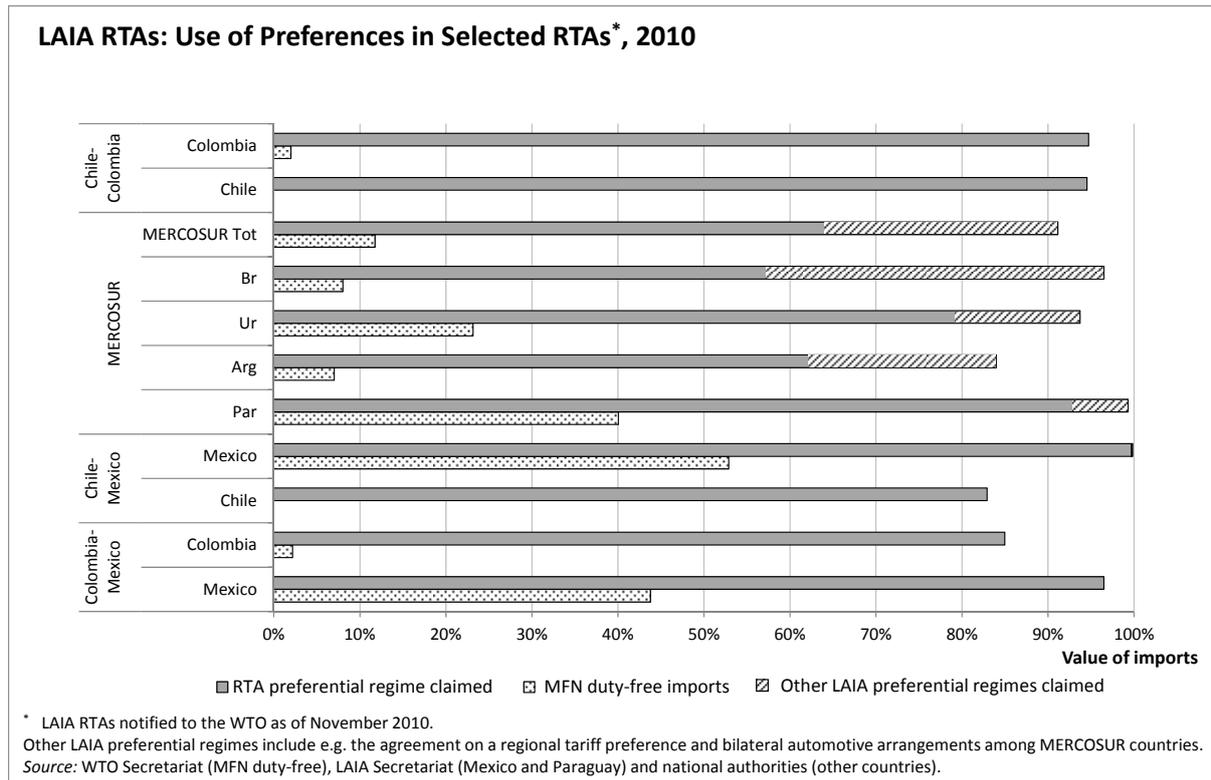
<sup>76</sup> LAIA (2011).

<sup>77</sup> E.g. the LAIA agreement on a regional tariff preference, agreements on cultural goods, etc.

of preferences and reflects rather potential preferential trade but not the actual use of preferences;<sup>78</sup>

- c. as a corollary to b above, and in the absence of more detailed data, it is impossible to disaggregate duty-free trade in terms of preferential and MFN regimes, and thus extrapolate an utilization rate without MFN zero trade. Actually, if figures for MFN duty-free imports are added to preferential imports, double counting becomes also apparent in other relations (e.g. Brazil's preferential and MFN duty-free imports from MERCOSUR are around 5% bigger than its total imports). That reveals that data supplied by countries themselves may also count as preferential trade imports that already benefit from MFN duty-free (as is the case with countries reviewed in other sections).

Chart 5.8



Overall, the picture presented is that of a high use of preferences for the 4 RTAs considered, with only 3 relations - MERCOSUR's exports to Argentina, and Mexico's exports into Chile and Colombia - showing an use of preference below 90%. If Mexico is taken as an import market, the opposite occurs and use of preferences from its partners are close to full utilization. Given the diversity of sources of these figures, and the absence of a clear line on how MFN duty-free imports have been dealt with, however, an analysis that excludes such trade is useful. Once that is done, the lowest percentages of preferential trade are those into Mexican market - around 50% - while the Chile-Colombia RTA have the highest percentages. Virtual full utilization in Paraguayan market from other MERCOSUR countries is also significantly modified, dropping to around 60%. Also regarding MERCOSUR, the significance of "other LAIA preferential regime" is to be stressed; for Argentina, Brazil and Uruguay this corresponds to the bilateral automotive arrangements concluded among themselves, while for Paraguay it refers to the LAIA agreement establishing the regional preference, under which Paraguay grants an MOP (on the MFN rate for products not covered by the MERCOSUR agreement) of 8% to Argentina and Brazil and of 12% to Uruguay.

<sup>78</sup> LAIA is currently implementing a new methodology, so MFN duty-free trade would no more be accounted under preferential trade. LAIA has estimated that with this revised methodology the overall use of preferences would be reduced in 2010 from 77.1% to 68.8%.

Figures presented above would tend to show that rules of origin in the few LAIA agreements are not trade-restrictive; however, the importance of the caveats listed earlier - the variety of sources, the absence of a clear methodology on how trade under preferences is calculated, and LAIA's approach for trade assignment - makes it difficult to arrive at a general conclusion.

## 6 PREFERENTIAL RULES OF ORIGIN, TRADE UNDER MFN CONDITIONS AND MARGINS OF PREFERENCE

In the absence of utilization rate for other RTAs, this Section analyse preferential rules of origin from a perspective of MOPs between MFN and preferential tariff rates. As referred to earlier in the paper, the fact that not all trade between RTA partners is carried out under its preferential regime goes beyond the difficulty of meeting the rules of origin requirements, and includes reasons such as low margins of preference, high compliance costs and a lack of information on existing RTAs and their preferences. Also mentioned earlier in Section 5.1 is the fact that a 5% threshold has been widely used as a benchmark for compliance costs; in that sense, it would be assumed that a margin of preference of at least 5 percentage points would offset such costs and thus provide a stimulus to comply with rules of origin in order to benefit from preferences.

This Section makes use of indicators that provide information on the extent to which preferential rules of origin do matter for trade, namely (i) tariff lines with MFN duty-free, at entry into force (EIF); (ii) absolute and relative MOPs,<sup>79</sup> at the end of the implementation (EOI) of the RTA; and (iii) average applied MFN and preferential rates, both at EIF and at EOI. A detailed statistical analysis of data supplied by parties to RTAs in the context of the Factual Presentations prepared by the WTO Secretariat is provided, in accordance with the WTO General Council Decision *Transparency Mechanism for Regional Trade Agreements*.<sup>80</sup> Data on trade in goods for 68 out of 192 RTAs have been computed (Annex 1 lists all RTAs and relations considered, while individual data can be found in Annex 3). These 68 RTAs create 160 bilateral relations,<sup>81</sup> which represent around one-fifth of all the bilateral relations created by the 192 RTAs. Considering RTAs that have entered into force only after 1 January 1995 (date of the establishment of the WTO), these bilateral relations represent around two-thirds of bilateral relations deriving from the 160 RTAs in force as from that date.

### 6.1 An Analysis by Categories of RTA Partners

Detailed data for the 160 bilateral relations created by 68 RTAs are the basis for the statistical analysis provided in this Section. "Bilateral relations" are defined by the number of schedules of liberalization generated by an RTA. The analysis is provided in terms of the categories of the economies involved<sup>82</sup>, with the following breakdown:

- 20 bilateral relations in RTAs among developed economies
- 73 bilateral relations in RTAs among developed and developing economies
- 61 bilateral relations in RTAs among developing economies

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<sup>79</sup> Absolute MOP are calculates as the actual difference between the MFN and the preferential rate, while the relative MOP represents the reduction of tariff in terms of percentage of the MFN rate.

<sup>80</sup> Document WT/L/671, dated 18 December 2006.

<sup>81</sup> Of these 160 relations, data regarding six bilateral relations of Switzerland (in the context of EFTA Agreements) have been disregarded given the very high number of lines for which AVEs were not available. Information on MFN and preferential tariff rates is also available for an additional RTA (SADC); this has been included in the relevant analysis. No information is however available for MOPs calculations.

<sup>82</sup> The categorization of "developing economies" and "developed economies" is the responsibility of the author, on the basis of (i) *An Analysis of the Proposed Uruguay Round Agreement, with Particular Emphasis on Aspects of Interest to Developing Economies*, Background Paper by the GATT Secretariat, document MTN.TNC/W/122-MTN.GNG/W/30 of 29 November 1993; (ii) *Communiqué - Formation of Asian Group of Developing Members*, Communication from Pakistan, document WT/GC/COM/6 of 26 March 2012; (iii) countries participating in the Informal Group of Developing Countries active in the WTO; and (iv) recent literature. In no case this may infer any official categorization of WTO Members.

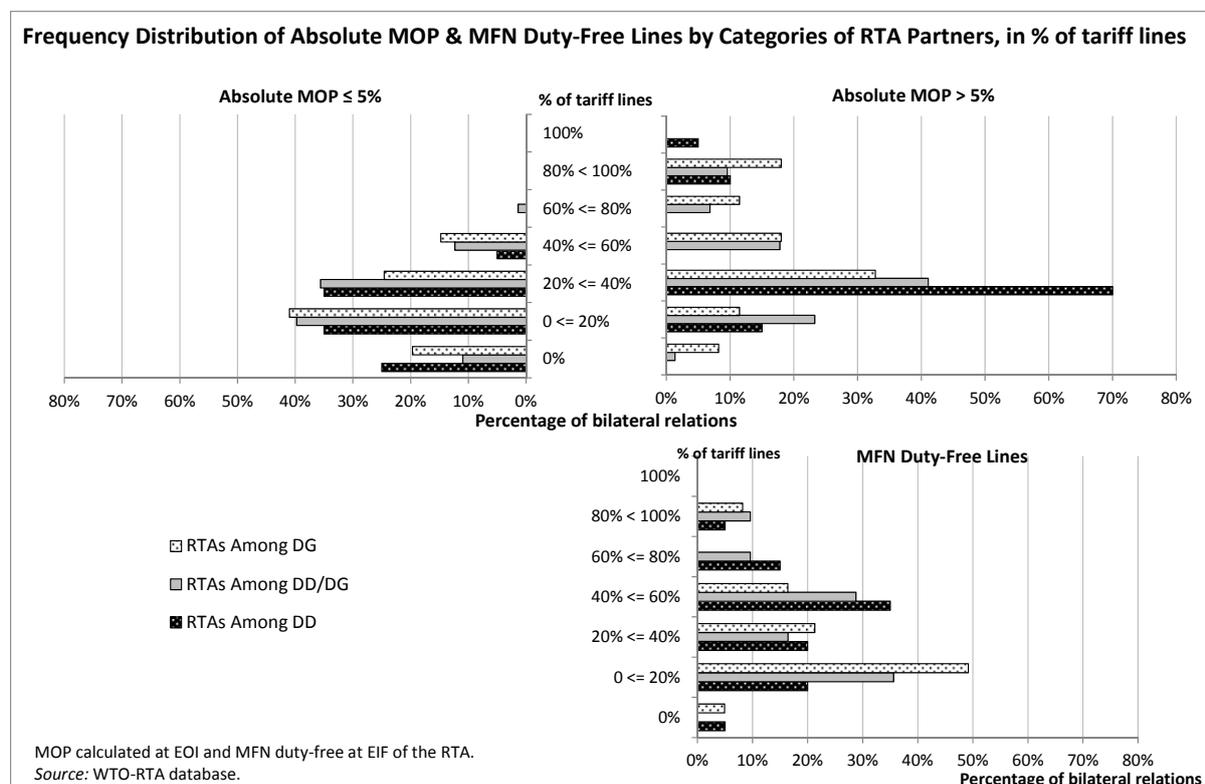
Each bilateral relation has therefore been analysed in terms of these three indicators. The starting point for the analysis has been the percentage of tariff lines that are MFN duty-free – i.e. when preferential treatment is irrelevant,<sup>83</sup> while breakdown of MOP has been defined as follows:

- a. for relative MOP, either equalling zero (products without preferential tariffs), 100% (products for which the tariff has been fully eliminated), or providing for a preferential treatment but falling short of full liberalization;
- b. absolute MOP has been classified as below or above 5 percentage points, thus presumably offsetting compliance costs. Absolute MOPs have been calculated for those products for which tariffs have either been eliminated or reduced under the RTA.

The analysis provided herein is accompanied by two caveats. First, the negative correlation between the number of MFN duty-free lines and MOPs equalling zero. Second, the analysis is exclusively made on the basis of ad valorem duties or specific duties for which ad valorem equivalents exist; specific rates without such equivalent are not computed.

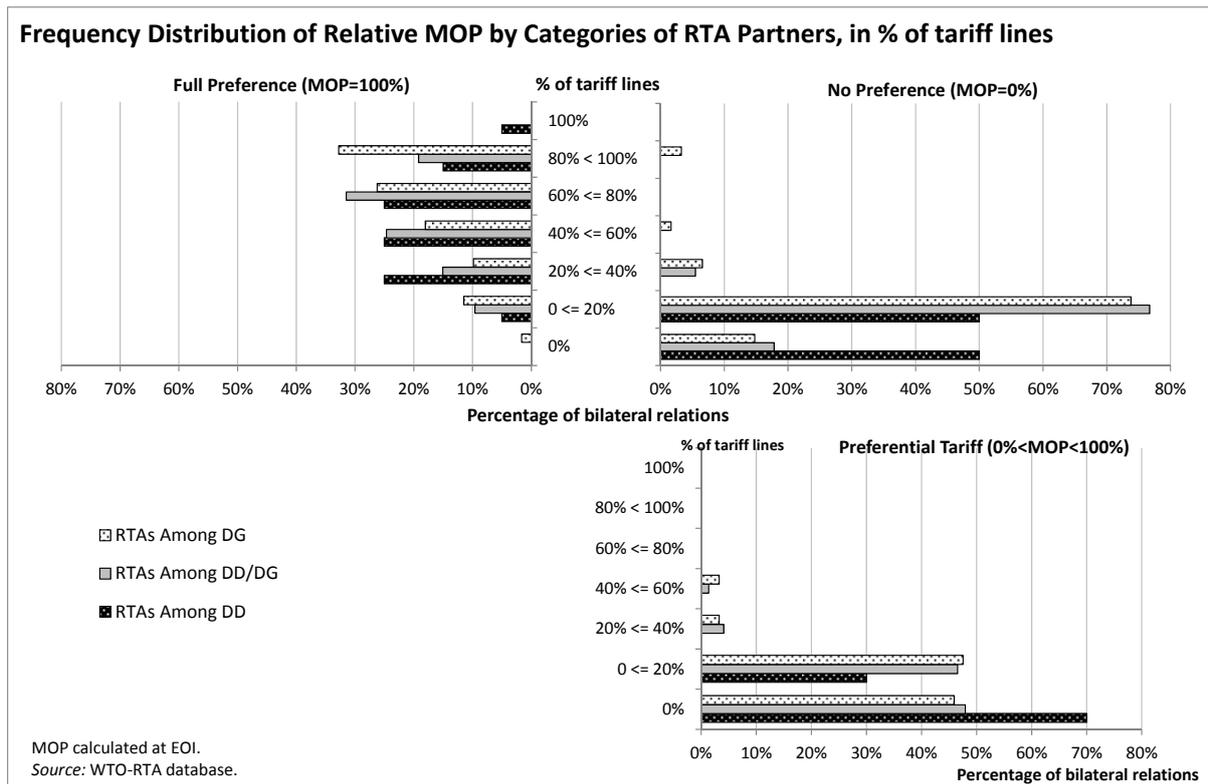
Charts 6.1 and 6.2 below provide a summary of the frequency distribution of absolute and relative MOPs in terms of the percentage of tariff lines benefitting from each MOP, against a background of tariff lines benefitting from MFN duty-free.

Chart 6.1



<sup>83</sup> Irrespective, of course, of the unsecure nature of applied rates, as compared to the security and predictability of both bound rates and preferential rates under an RTA. It is worth noting, however, that available data shows that, in some cases, despite the absence of actual preferences when MFN is duty-free, preferential treatment is nevertheless claimed at the time of exportation.

Chart 6.2



An analysis of these charts allows the following observations:

- a. Regarding absolute MOPs up to 5 percentage points:
  - i. relations among developed and developing economies ("diverse economies" thereafter) and among developing economies have a higher percentage of lines with MOPs in this range;
  - ii. one-fourth of the bilateral relations among developed economies have no tariff lines with MOPs up to 5%; the corresponding ratio was one-tenth for RTAs of diverse economies and one-fifth for RTAs among developing economies;
  - iii. around three-quarters of relations have a maximum of 40% of the tariff with this MOP (the bulk between 0 and 20%);
  - iv. among all relations, the maximum percentage of lines with this MOP is between 60% to 80%, (only occurring in one relation).
- b. Regarding absolute MOP above 5 percentage points:
  - i. relations created by RTAs among diverse economies and developing economies have higher percentage of lines in this MOP range (as for MOP below 5%)
  - ii. the bulk of relations have this MOP range for between 20% to 40% of tariff lines; this occurs in almost three quarters of relations among developed economies;
  - iii. only in one relation - of an RTA among developed economies - do all the lines benefit from a MOP above 5%.

Chart 6.3 complements previous Charts by providing information on the level of applied MFN tariff (at EIO), showing that the starting point is on average at or below 5% for developed economies, but around 11% for developing economies - thus providing a bias for absolute MOP for

developed economies being below 5%. The Chart also indicates, by providing a summary of relative MOP, that the preferential treatment under the RTAs considered are relevant, on average, for 56% of lines for relations of RTAs among developed economies and for 64% of lines of RTAs among developing economies. For RTAs of diverse economies, the average of concerned lines are 42% if the partner is a developed economy and 70% in the case of developing economies.

Chart 6.3

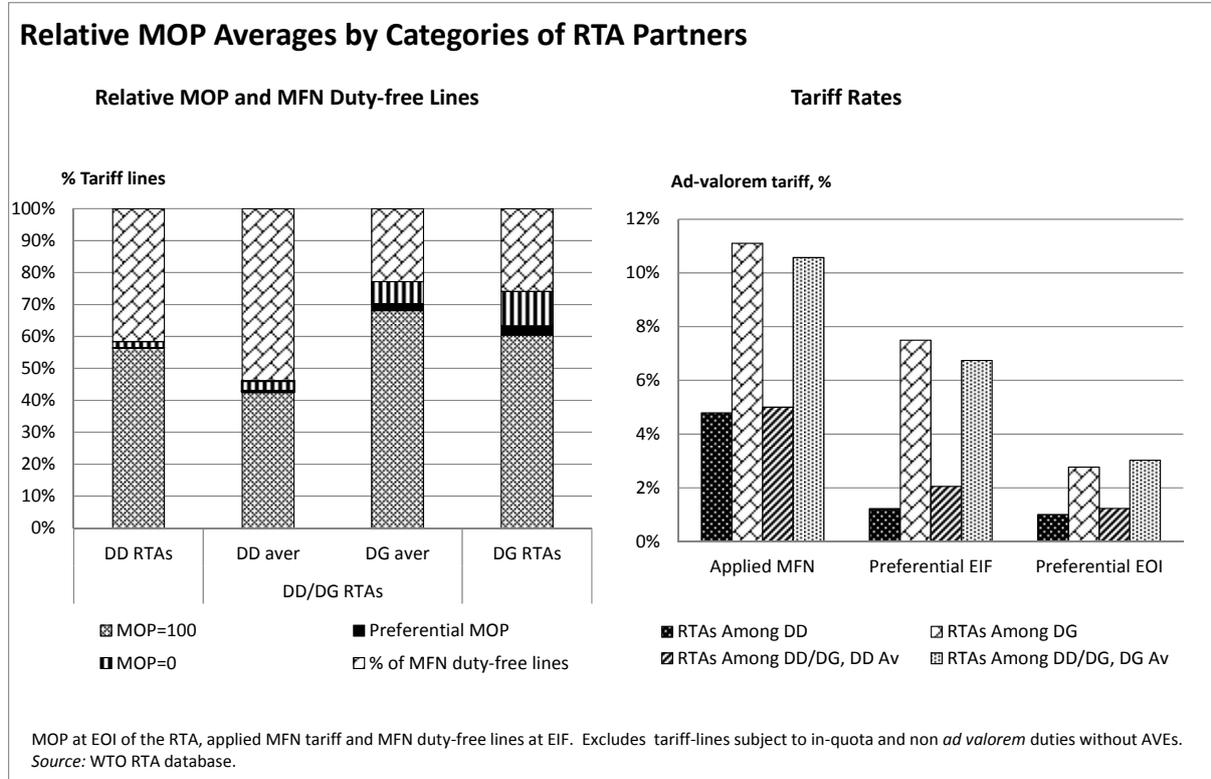


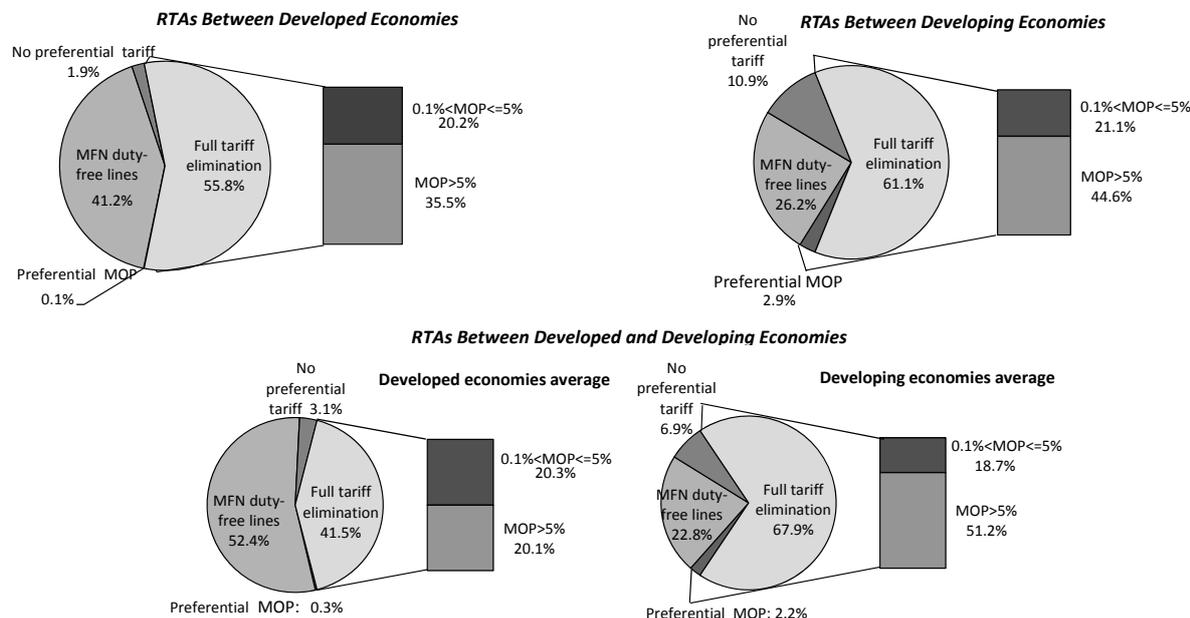
Chart 6.4 illustrates the average number of lines subject to the two ranges of absolute MOP by categories of RTA partners. For three out of the four categories of RTA partners (i.e. except developed economies parties to an RTA with developing economies) the percentage of lines benefitting from MOP higher than 5% is greater than those below that threshold: at a ratio of almost three to one for developing economies in an RTA with developed counterparts and of two to one for RTAs between developing economies.

In summary for the RTAs considered, an ad valorem absolute MOP that is higher than 5 percentage points is more frequently offered by developing economies, firstly in their RTAs with developed economies and then with their peers; third and fourth in the ranking are MOPs offered by developed economies to other developed economies and finally with developing counterparts. That is consistent with the overall fact that on average MFN tariffs of developing economies are higher than that of developed economies.

If an ad valorem tariff of 5 percentage points is considered as more than offsetting compliance costs, it would appear that in the RTAs considered, the greatest incentive to comply with rules of origin in order to benefit from the RTA's liberalization would apply to developed economies in their RTAs with developing counterparts, while the lowest would be for developing economies in their RTAs with developed economies.

Chart 6.4

**Relative and Absolute Average MOP by Categories of RTA Partners  
(% tariff lines)**



MOP at EOI, MFN duty-free lines at EIF. Pie charts: relative MOP; bar charts: absolute MOP. Excludes tariff-lines subject to in-quota and non ad valorem duties without AVEs. Source: WTO RTA database.

**6.2 An analysis by Selected Economies**

At this point in time, it would be useful to compare data on margins of preference with that on the use of preferences and utilisation rates. Once more, however, that comparison entails a number of caveats:

- data on use of preferences/utilisation rates provided in Section 5 are specific to a given year - for the US, 2011 for utilisation rates and use of preferences refer to the 2009-2011 average; use of preferences in the EU are 2011 and in Panama and other LAIA RTAs 2010, while those of China are either 2010 or 2011.
- MOP data has been calculated at end of implementation for each partner of the RTA and the percentage of MFN duty-free lines is that prevailing at the RTA's entry into force (Annex 1 includes the date of EIF and of EOI).
- imports taken into account in Chart 6.5 have been calculated on the basis of the three years average prior to the RTA's entry into force (in accordance with the methodology used in factual presentations).

Chart 6.5 and Chart 6.6 show the percentage of tariff lines and imports, respectively, benefitting from absolute MOPs below and above 5 percentage points as well as those subject to MFN duty-free treatment. A comparison of such data with that of Section 5 shows the following:

- for the United States, comparison is possible for 3 out of 11 RTAs. Actual trade under RTA preferences totalled 34%, 23% and 40% in relation to imports from Australia, Morocco and Peru, respectively, while the MOP analysis indicated that an absolute MOP greater than 5% applied to respectively 7%, 19% and 21% of imports at EOI,<sup>84</sup>

<sup>84</sup> It shall be noted that for around one-fifth of imports from Australia and Morocco absolute MOP are not available because these are imports subject to specific rates of duty.

- b. for the EU, comparison is possible for 3 out of 27 RTAs. With the MOP above 5% occurring on 82% of imports from Montenegro - the highest proportion among the three RTAs - this country would by far benefit the most from preferential treatment; in fact, corresponding figures are 32% for Albania and 21% for Serbia. Trade under preferences Utilization rates for 2011 figures show precisely an opposite contradictory picture, with preferential trade being the lowest in the case of Montenegro (about one-third of imports) with half of trade carried out under preferential terms for Albania and Serbia;
- c. for China, comparison is possible for 3 out of 9 RTAs. Trade under preferences reached respectively 2%, 22% and 28% for Chile, New Zealand and Pakistan imports. MOP analysis extrapolated that MOP greater than 5% applied to respectively 3%, 57% and 14% of imports at EOI. This points to a higher interest for New Zealand exporters to claim preferential treatment, followed by New Zealand but showing only a marginal interest to do so for Chilean exporters. That situation matches relatively well information from the previous Section, that showed an almost negligible use of preferences from Chile but higher use for New Zealand and Pakistan;
- d. for Panama RTAs, comparison is possible for 5 out of 6 RTAs. Trade under preferences reached respectively 41%, 58%, 51%, 75% and 4% for Chile, Chinese Taipei, Costa Rica, El Salvador and Singapore. Analysis showed MOP greater than 5% applying to respectively 39%, 53%, 41%, 46% and 30% of imports from the respective partners at EOI. Thus, while some correlation can be found between the use and the MOP of imports from Chile and Chinese Taipei, that is less true for Costa Rica and especially El Salvador and Singapore.
- e. for LAIA RTAs, only the comparison of the RTA between Mexico and Colombia is possible. MOP analysis extrapolated that MOP greater than 5% applied to respectively 54% of imports into Mexico from Colombia and 48% vice-versa. If MFN duty-free trade is disregarded, preferential trade reaches 53% on Mexican imports from Colombia (almost perfectly matching the MOP data) and 83% of Colombia's imports from Mexico (significantly higher than the MOP data).

Chart 6.5

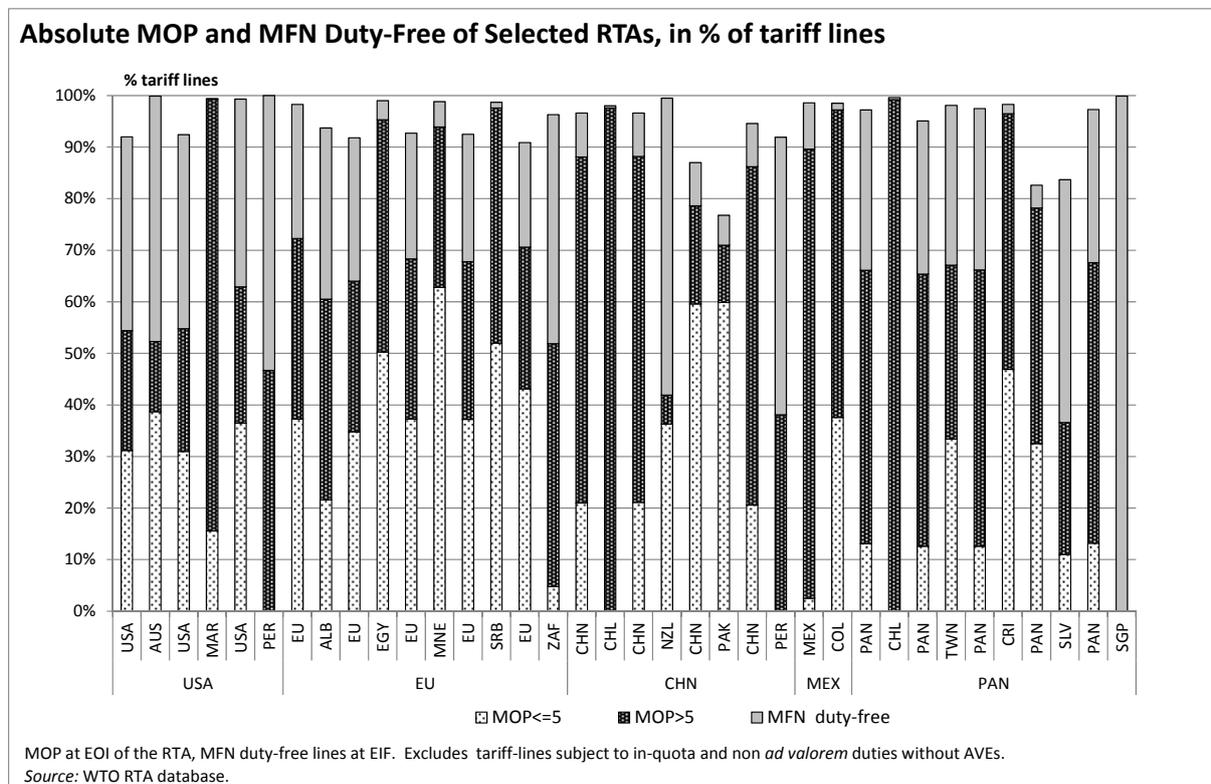
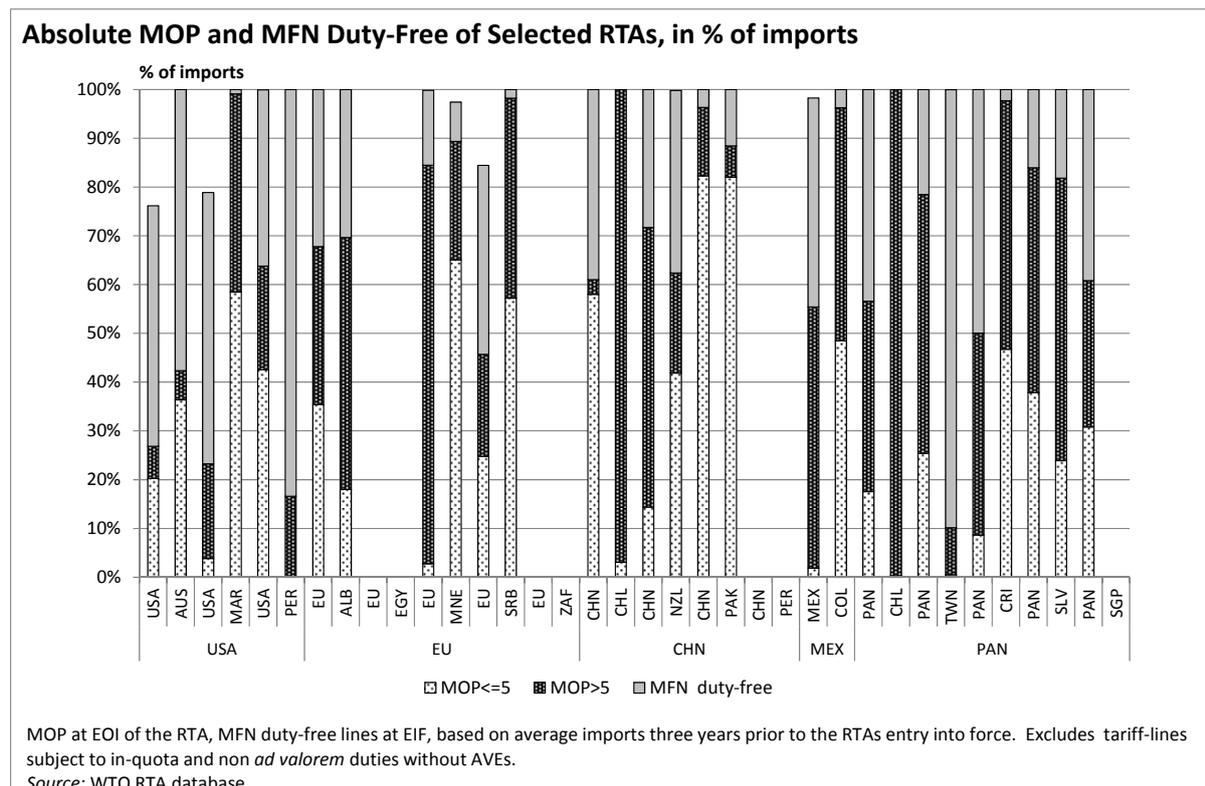


Chart 6.6



The analysis of these figures do not allow any conclusion regarding the generally presented hypothesis that there is no incentive to seek originating status under the rules of origin of the RTA if absolute MOP is below 5%.

## 7 SUGGESTIONS FOR FURTHER ACTION

The analysis above shows that while it is difficult to measure the impact of rules of origin on preferential trade, their impact (whether desired or not) is more far-reaching than the benign function of avoiding trade deflection. At the national level, authorities from various countries have questioned their system of preferential rules of origin. Regional organizations have also highlighted the burdensome nature and trade-impediment aspects of multiple rules of origin, and provided avenues for further action. These are summarized below.

In the America's, researchers of the IDB have argued that, for overcoming the potential "spaghetti bowl" problems and expanding America's market access and production possibilities, a feasible policy would be for building bridges among existing RTAs in the America's and to "strive to achieve some form of convergence or gradual harmonization of the various RTAs in the Americas and to implement cumulation of production among them. The starting point and initial focus of such an effort could be market access provisions and rules of origin, in particular". As regards the latter, it proposed two short-term measures for consideration: a sectoral PRO convergence - more easily accomplished in sectors where the rules are similar across the hemispheric agreements, leaving the more difficult sectors of textiles and automotive for a later stage - and a sectoral MFN tariff harmonization encompassing the elimination of rules of origin for the products concerned; that, it was argued, "could be feasible in sectors in which all countries' tariffs are already quite low [and] ... could be modelled after the Information Technology Agreement reached at the WTO in 1996 and the handful of mini-customs unions instituted in NAFTA."<sup>85</sup>

In the US, a CRS Report for Congress identified various shortcomings of preferential rules of origin - including the little legislative guidance in interpreting them and its corollary of case-by-case origin determination, inefficiency of the proliferation of preferential rules of origin, influence of well-structured companies in defining rules of origin that would insulate them from competition,

<sup>85</sup> *Supra*, footnote 2.

etc. On the basis of US experience and of studies from trade policy analysts, the Report identifies some options for the Congress, including simplification of these rules by agreement between the RTA parties; the development of a uniform set of, or a template, of preferential rules of origin; providing additional legislative guidance to CBP; abolition of preferential rules of origin or ultimately of rules of origin entirely.<sup>86</sup>

Australia's Productivity Commission has in a recent past conducted a comprehensive research on the effects of bilateral and regional trade agreement on a range of matters related to Australia's economy in general. As a reaction to business representatives view that "RoO are a cost on exporting businesses, and in particular that the 'spaghetti bowl' of overlapping BRTAs (and associated RoO) can increase these costs", the Department of Foreign Affairs and Trade of Australia "noted that a regional work program had just begun that was seeking to improve the 'complementarity and coherence' or RoO in the region." At the completion of the research, the Productivity Commission issued a number of recommendations, among which:

"The Australian Government should adopt the composite model for rules to determine origin in merchandise trade, as in AANZFTA, as the basis for rules of origin in any future preferential trade agreement. In adopting this model:

- a choice of Regional Value Content and Change in Tariff Classification rules for determining origin should be afforded for each item of merchandise;
- the least restrictive variant of each test should be adopted, consistent with preventing trade deflection; and
- Australia should seek a waiver to rules of origin requirements where the difference between the MFN tariff rates in the partner countries is 5 percentage points or less."<sup>87</sup>

In the European Union, the question of preferential rules of origin has been the focus of a "Green Paper" in 2003, after which the European Commission adopted a strategy to reform such rules in its RTAs with certain third countries.<sup>88</sup> In particular, it marked a U-turn in the EU's system of preferential rules of origin, as described earlier in this paper, by proposing to replace the multi-criteria regime with a with a single value-added method for determining origin. As a follow-up, as of 2011 new rules of origin apply for EU's GSP scheme; though reformed (e.g. as regards cumulation regimes), such new rules fall short of implementing the proposed novel criteria for determining origin. As already mentioned earlier, the new GSP regime of cumulation will be "used as a point of reference during ongoing and future FTA negotiations" of the EU.

The Asian Development Bank has highlighted that "Inconsistencies between agreements, however, may raise costs of doing business and cause welfare losses associated with trade diversion. Differences across FTAs such as varying schedules for phasing out tariffs, different rules of origin ... can limit their effectiveness and weaken efficiency. Indeed, a consequence has been that FTA utilization rates have remained low in the aggregate, especially when MOPs are low." It also pointed out to two types of proposals put forward to deal with these questions, namely the consolidation and/or multilateralization of existing RTAs.<sup>89</sup>

A recent report from the Economic Commission for Africa pledged for the fast-track establishment of an "African Continental Free Trade Area", the first phase of which is to cover "liberalization of trade in goods. This will include tariff reduction or elimination, creation of simple

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<sup>86</sup> CRS Report for Congress, *International Trade: Rules of Origin*, 5 January 2012, available online at <http://fpc.state.gov/documents/organization/180678.pdf> .

<sup>87</sup> Productivity Commission (2010), Chapters 7 and the Section on findings and Recommendations. The Productivity Commission is an Australian's Government's independent research and advisory body.

<sup>88</sup> COM(2003)787 of 18 December 2003 and COM(2005)100 of 16 March 2005, available respectively at [http://ec.europa.eu/taxation\\_customs/resources/documents/origin\\_consultation\\_final.pdf](http://ec.europa.eu/taxation_customs/resources/documents/origin_consultation_final.pdf) and <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0100:FIN:EN:PDF>.

<sup>89</sup> Asian Development Bank (2012).

and transparent rules of origin, ...", through the "simplification and harmonization of rules of origin in all the RECs [Regional Economic Communities] and among them."<sup>90</sup>

A recent WTO publication explored the relationship between RTAs and the multilateral trading system.<sup>91</sup> In reviewing literature regarding possible avenues for improving coherence between them, it was noted that:

"There may be a role for the WTO to reduce these transaction costs [of overlapping RTAs and complicated rules of origin] by serving as a forum for the coordination/standardization/harmonization of preferential rules of origin. Another way that greater coherence can be established has already been discussed and consists of identifying "best practices" in PTAs. As noted in Section D, the extent to which deep integration measures in PTAs have the potential to generate the same sort of costly spaghetti/noodle bowl as tariff preferences is still being debated. Baldwin et al. (2009) explore six different areas, discussing for each of them whether PTAs have created a spaghetti bowl and how PTA provisions have been or could be multilateralized."  
*(footnotes omitted)*

In the formal WTO context, preferential rules of origin have not given rise to debate in the recent past.<sup>92</sup> In the context of the Doha negotiations, a communication was put forward by Chile and Korea reproducing the *Best Practices for RTAs/FTAs in APEC*.<sup>93</sup> While it was proposed that the non-compulsory guidelines, agreed by APEC's twenty-one members, be built upon and endorsed by WTO Members, no further detailed discussion was held on them. As regards rules of origin, the Best Practices state:

"Simple Rules of Origin that facilitate Trade

To avoid the possibility of high compliance costs for business, Rules of Origin (ROOs) are easy to understand and to comply with. Wherever possible, an economy's ROOs are consistent across all of its FTAs and RTAs.

They recognize the increasingly globalized nature of production and the achievements of APEC in promoting regional economic integration by adopting ROOs that maximize trade creation and minimize trade distortion."

As regards the subject of the paper, today's reality is two-fold. First, the multiplication of tailor-made preferential rules of origin, without prospect (outside the "researchers community") for changes. Second, the virtual absence of WTO rules for preferential rules of origin.

Facing this reality, WTO Members may continue to shun any work on preferential rules of origin.

Alternatively, they could launch in the WTO an exploratory work on preferential rules of origin within an "open regionalism" scenario. Though it may appear contradictory that the WTO, guardian of multilateralism, be a driving force for such a work, three main arguments point towards that direction:

- a. the reality is that ultimately, the WTO is the only global body that has a statutory relation to the vast majority of the RTAs in force; no other organization can prevail in that role. Information on all RTAs notified to the WTO are already available. The WTO, encompassing RTAs in all regions and cross-regional RTAs, would therefore appear as the appropriate forum for such a debate; and
- b. taking into account the fact that the increasing number of RTAs are here to stay, the numerous official texts and declarations on the need to ensure the compatibility of regional agreements with the multilateral trading system, and self-claimed "open

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<sup>90</sup> United Nations Economic Commission for Africa (ECA) (2012).

<sup>91</sup> WTO (2011).

<sup>92</sup> Actually, the only detailed debate held in WTO bodies was that held in 1998-1999 at the CRTA at the time of the adoption of the pan-European system of cumulation.

<sup>93</sup> TN/RL/W/187.

regionalism" from the RTAs themselves, the launching of such a debate would appear as a positive contribution to both increase the utilization of improved market access brought by the RTAs while simultaneously insuring and increasing the participation of third parties in both the debate and the reaping of benefits of a real open regionalism;

- c. expertise is available in the two bodies of the WTO, namely the Committee on Regional Trade Agreements and the Committee on Rules of Origin.

The current debate on "value chains", which is parsimoniously migrating from the theoretical/scholars arena into the international organizations realm, offers also a backdrop for the need to rethink the design of rules of origin.

In this debate, various options could be addressed, from the more traditional WTO approach of "rule-making" as regards "minimum requirements" for preferential rules of origin to a more "hands-on" approach, such as convergence of preferential rules of origin, elimination of preferential rules of origin for all products bound at "low" MFN rate (and enlarging the scope of diagonal cumulation and outward-oriented processing schemes).

**ANNEX 1**

**List of Bilateral Relations Considered in the Analysis**

RTA	EIF	EOI	Bilateral Relation	RTA	EIF	EOI	Bilateral Relation
<b>RTAs between Developed Economies (9) and their Liberalization Schedules (20)</b>							
Armenia-Moldova	21-Dec-95	1995	ARM-MDA MDA-ARM	Georgia-Ukraine	04-Jun-96	1996	GEO-UKR UKR-GEO
Armenia-Ukraine	18-Dec-96	1996	ARM-UKR UKR-ARM	Japan-Switzerland*	01-Sep-09	2024	JPN-CHE CHE-JPN
Canada-EFTA*	01-Jul-09	2024	CAN-ISL CAN-NOR CAN-CHE ISL-CAN NOR-CAN	Kyrgyz Rep-Ukraine	19-Jan-98	1998	KGZ-UKR UKR-KGZ
				Ukraine-Moldova*	16-May-08	2008	UKR-MDA MDA-UKR
EU(27)	01-Jan-07	2007	EU(27)	US-Australia*	01-Jan-05	2023	USA-AUS AUS-USA
<b>RTAs between Developed and Developing Economies (28) and their Liberalization Schedules (73)</b>							
Australia-Chile	06-Mar-09	2015	AUS-CHL CHL-AUS	EU-South Afr*	01-Jan-00	2012	EU-ZAF ZAF-EU
Australia-Thailand*	01-Jan-05	2025	AUS-THA THA-AUS	Japan-Brunei Dar	31-Jul-08	2023	JPN-BRN BRN-JPN
Canada-Peru	01-Aug-09	2025	CAN-PER PER-CAN	Japan-Chile	03-Sep-07	2022	JPN-CHL CHL-JPN
EFTA-Chile*	01-Dec-04	2010	ISL-CHL NOR-CHL CHL-ISL CHL-NOR CHL-CHE	Japan-Indonesia	01-Jul-08	2023	JPN-IDN IDN-JPN
EFTA-Egypt*	01-Aug-07	2020	ISL-EGY NOR-EGY EGY-ISL EGY-NOR EGY-CHE	Japan-Malaysia	13-Jul-06	2021	JPN-MYS MYS-JPN
				Japan-Mexico	01-Apr-05	2015	JPN-MEX MEX-JPN
EFTA-Korea*	01-Sep-06	2016	ISL-KOR NOR-KOR KOR-ISL KOR-NOR KOR-CHE	Japan-Philippines*	11-Dec-08	2023	JPN-PHL PHL-JPN
				Japan-Thailand*	01-Nov-07	2022	JPN-THA THA-JPN
EFTA-Tunisia*	01-Jun-05	2023	ISL-TUN NOR-TUN TUN-ISL TUN-NOR TUN-CHE	Japan-Viet Nam	01-Oct-09	2026	JPN-VNM VNM-JPN
				New Zealand-China*	01-Oct-08	2019	NZL-CHN CHN-NZL
EFTA-SACU*	01-May-08	2015	ISL-SACU NOR-SACU SACU-ISL SACU-NOR SACU-CHE	New Zealand-Thailand*	01-Jul-05	2020	NZL-THA THA-NZL
				Trans-Pacific SEP*	28-May-06	2017	TPP NZL TPP BRN TPP CHL TPP SGP
EU-Albania*	01-Dec-06	2011	ALB-EU EU-ALB	Georgia-Turkey	01-Nov-08	2008	GEO-TUR TUR-GEO
EU-Egypt*	01-Jun-04	2019	EU-EGY EGY-EU	Ukraine-FYROM*	05-Jul-01	2010	UKR-FYROM FYROM-UKR

RTA	EIF	EOI	Bilateral Relation	RTA	EIF	EOI	Bilateral Relation
EU-Montenegro*	01-Jan-08	2013	EU-MNE MNE-EU	US-Morocco*	01-Jan-06	2030	USA-MAR MAR-USA
EU-Serbia*	01-Feb-10	2014	EU-SRB SRB-EU	US-Peru	01-Feb-09	2025	USA-PER PER-USA
<b>RTAs between Developing Economies (32) and their Liberalization Schedules (61)</b>							
Chile-China	01-Oct-06	2015	CHL-CHN CHN-CHL	Pakistan-Sri Lanka*	12-Jun-05	2011	PAK-LKA LKA-PAK
Chile-Colombia	08-May-09	2012	CHL-COL COL-CHL	Panama-Chile*	07-Mar-08	2022	PAN-CHL CHL-PAN
Chile-India	17-Aug-07	2007	CHL-IND IND-CHL	Panama-Chinese Taipei	01-Jan-04	2013	PAN-TWN TWN-PAN
India-Singapore	01-Aug-05	2009	IND-SGP SGP-IND	Panama-Costa Rica*	23-Nov-08	2026	PAN-CRI CRI-PAN
Jordan-Singapore*	22-Aug-05	2014	JOR-SGP SGP-JOR	Panama-El Salvador	11-Apr-03	2013	PAN-SLV SLV-PAN
Korea-Chile*	01-Apr-04	2020	KOR-CHL CHL-KOR	Panama-Singapore*	24-Jul-06	2016	PAN-SGP SGP-PAN
Korea-Singapore*	02-Mar-06	2016	KOR-SGP SGP-MEX	Peru-China*	01-Mar-10	2026	PER-CHN CHN-PER
Mexico-Colombia	01-Jan-95	2010	MEX-SGP COL-MEX	Peru-Singapore*	01-Aug-09	2025	PER-SGP SGP-PER
Mexico-Costa Rica	01-Jan-95	2009	MEX-CRI CRI-MEX	SACU	15-Jul-04	2004	SACU
Mexico-El Salvador*	15-Mar-01	2012	MEX-SLV SLV-MEX	Turkey-Albania*	01-May-08	2013	TUR-ALB ALB-TUR
Mexico-Guatemala*	15-Mar-01	2012	MEX-GTM GTM-MEX	Turkey-Egypt*	01-Mar-07	2020	TUR-EGY EGY-TUR
Mexico-Honduras*	01-Jun-01	2012	MEX-HND HND-MEX	Turkey- Montenegro*	01-Mar-10	2015	TUR-MNE MNE-TUR
Mexico-Nicaragua	01-Jul-98	2012	MEX-NIC NIC-MEX	Turkey-Morocco*	01-Jan-06	2015	TUR-MAR MAR-SRB
Nicaragua-Chinese T.	01-Jan-08	2022	NIC-TWN TWN-PAK	Turkey-Serbia*	01-Sep-10	2015	TUR-SRB SRB-TUR
Pakistan-China	01-Jul-07	2012	PAK-CHN CHN-PAK	Turkey-Tunisia*	01-Jul-05	2014	TUR-TUN TUN-TUR
Pakistan-Malaysia*	08-Nov-07	2014	PAK-MYS MYS-PAK				

\* Different EOI.

## ANNEX 2

### A Closer Look at Some Aspects of Preferential Rules of Origin Involving RTAs of the United States

#### 1. Preferential rules of origin of US/Jordan and QIZ<sup>94</sup> and the US non-preferential rules of origin for textile or apparel<sup>95</sup>

With respect to these partner countries, figures analysed show a modification of the originating status of imported goods, from "West Bank, the Gaza Strip and the QIZ" to "Jordan". A more in depth analysis of statistics show that imports concerned are clothing and apparel of HS Chapters 61 and 62 (representing around 99% of imports from this area); thus, it would appear that the origin of these imports moved progressively from West Bank, the Gaza Strip and the QIZ in 2009 to that of Jordan itself during 2010-2011. This coincides with the full elimination of tariffs under the US-Jordan RTA for numerous textiles products, which only took place in 2010, 10 years after the RTA's entry into force.

Rules of origin in the QIZ Protocol: (a) a minimum domestic content of 11.7% for Jordan and of 8% for Israel (or 7% for high tech products);<sup>96</sup> or (b) a minimum of 20% of the total cost of production for Jordan and Israel each, excluding profits. Contrary to the US rules of origin for the QIZ and for the US-Jordan RTA, costs related to minimum processing operations and other non-direct costs such as overhead in marketing expenses can be counted as originating; and (c) the origin of any textile or apparel product that is processed in the QIZ is determined solely on the basis of the US non-preferential rules of origin for these products.

US rules of origin for the QIZs: products are either wholly obtained or substantially transformed in the area/country concerned, and are imported directly into the United States. The "substantial transformation" criterion applied requires a minimum domestic value added (materials and operations) of 35%, out of which a maximum of 15% of materials can be from the United States. Materials imported from third-parties may be counted towards this threshold if a double transformation has taken place in the zone - i.e. a non-originating material is substantially transformed in one of the Parties, and this "substantially transformed constituent material" is then substantially transformed when incorporated in the final product that is exported.<sup>97</sup> No specific rule of origin is foreseen to textile and apparel; however, indirectly, the US non-preferential rules of origin on these products apply given the QIZ Protocol rule under 0 above. Summarizing these rules, an official document from the US government indicates that a textile or apparel is a "product of" Jordan QIZ when it is assembled or knit to shape therein.<sup>98</sup>

Rules of origin in the US-Jordan RTA: they are the same as (b) above, with exceptions applying for fruit juices containing citrus fruits, whereby processing imported citrus fruit into fruit juices (from HS 0805 to 2009.11-2009.30) does not confer origin, irrespective of whether the general rule of origin is fulfilled. Specific reference is made to rules of origin in textile and apparel; also under this RTA, the 35% domestic content and the US non-preferential rules of origin apply.

US Non-preferential Rules of Origin on Textile and Apparel: The US non-preferential rules of origin are defined in Section 334 of the Uruguay Round Agreements Act. These are based either on the wholly obtained or produced rule; when that is not the case, substantial transformation –

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<sup>94</sup> The text of the QIZ Agreement can be found at <http://www.agreements.jedco.gov.io/qiz.html>.

<sup>95</sup> Detailed information are available at the U.S. Customs & Border Protection publications *U.S. Rules of Origin, Textile & Apparel Rules of Origin, and Agreements and Preference Programs NOT based on Tariff Shift Rules*, available online in [http://www.cbp.gov/xp/cgov/trade/legal/informed\\_compliance\\_pubs/](http://www.cbp.gov/xp/cgov/trade/legal/informed_compliance_pubs/), [http://www.cbp.gov/linkhandler/cgov/trade/trade\\_programs/textiles\\_and\\_quotas/fta\\_training/israel\\_jordan.ctt/israel\\_jordan.pdf](http://www.cbp.gov/linkhandler/cgov/trade/trade_programs/textiles_and_quotas/fta_training/israel_jordan.ctt/israel_jordan.pdf). A summary of the rules of origin applied in the US RTAs is available online at the Office of Textiles and Apparel of the International Trade Administration of the US Department of Commerce, at <http://web.ita.doc.gov/tacqi/fta.nsf/fbf49a260d9c19b7852573750065b89a/70cf7aa5ff7bd90585257375006623f0?OpenDocument&country=FTA>.

<sup>96</sup> Originally, the minimum threshold was one-third on the 35% threshold in each Party, but these were modified to take into account increasing value-added contribution from Jordan. A 10.5% threshold in each Party is still applied in the Egypt/Israel QIZ.

<sup>97</sup> This is also referred to as the absorption principle.

<sup>98</sup> In the US-Israel RTA, for most garments, origin is the country where the components are cut to shape.

defined exclusively on the basis of a change in tariff classification origin – is required. Rules are defined for yarns, fabric and other textile products; for the latter, the rules generally provide that processing operations or assembly (particularly for apparel), not cutting components, confer origin. Special rules apply to 12 HS tariff headings and 2 sub-headings, knit-to-shape products and dyed and printed fabrics and articles made from fabrics. Finally, whenever origin cannot be conferred by one of these rules, the "multi-country rule" apply, origin being from the country in which the most important assembly/manufacturing process occurs; if that also cannot be determined, origin will be of the last country in which an important assembly/manufacturing operation occurred. Table 5.2 contains summary of the US RTAs rules of origin for textiles.<sup>99</sup>

In summary, the main difference as regards rules of origin under the QIZ arrangement and the US-Jordan RTA is the mandatory Israeli value-added in the case of the latter. Another major distinction between these two schemes is the tariff treatment of textiles "of Jordan" or "of West Bank, the Gaza Strip and the QIZ" – with a staged tariff reductions in the former case, versus an immediate duty-free status in the latter; that distinction has disappeared since 2010. The full implementation of the US-Jordan RTA now allows Jordan to source its imported, third-country materials from any other country in the world, while under the QIZ a minimum content of Israeli imports was required.<sup>100</sup> From statistics in Table A2.1 below, it can be seen that Israeli imports have decreased significantly under the period 2009-2011; concomitantly, imports from US, China and the rest of the world have increased.

**Table A2.1 - Jordan Total Imports, and Imports of Textiles from Selected Partners, 2009 and 2011**

	Jordan Imports, 2011 (million US\$)				2011-2009 Variation, in %			
	Israel	US	China	Rest of the world*	Israel	US	China	Rest of the world*
Total Imports	96	996	1,807	15,132	-26.4%	10.4%	18.1%	34.5%
of which HS Section 11 (textiles)	47	13	413	497	-17.5%	22.9%	13.3%	24.6%

\* Excluding Israel, US and China.

Source: UNSD, Comtrade database.

## 2. US Imports of Textiles from its Partners in RTAs

An analysis of all of the US imports of textiles (Chapters 50-62, average 2009-2011) is presented herein, with Chart A2.1 informing on these results.<sup>101</sup> It can easily be seen that the lowest use of textile preferences - around 40% - occur in three bilateral relationships - Morocco, Nicaragua in the context of CAFTA-DR and Australia - while the largest - more than 96% - occur in the US RTAs with Middle East countries except Israel, which only reaches 70%. Neither the staging of implementation of these RTAs, nor the flexibilities provided for in the rules of origin (as summarized in Table 5.2) can by themselves explain this situation - e.g. the RTA with Israel and Morocco have similar rules of origin and are fully implemented, but the results are significantly different; similarly, the use of CAFTA-DR preferences by El Salvador is more than 2.5 times that of Nicaragua, even if both countries are in the same stage of implementation and increased flexibilities are applicable to Nicaragua.

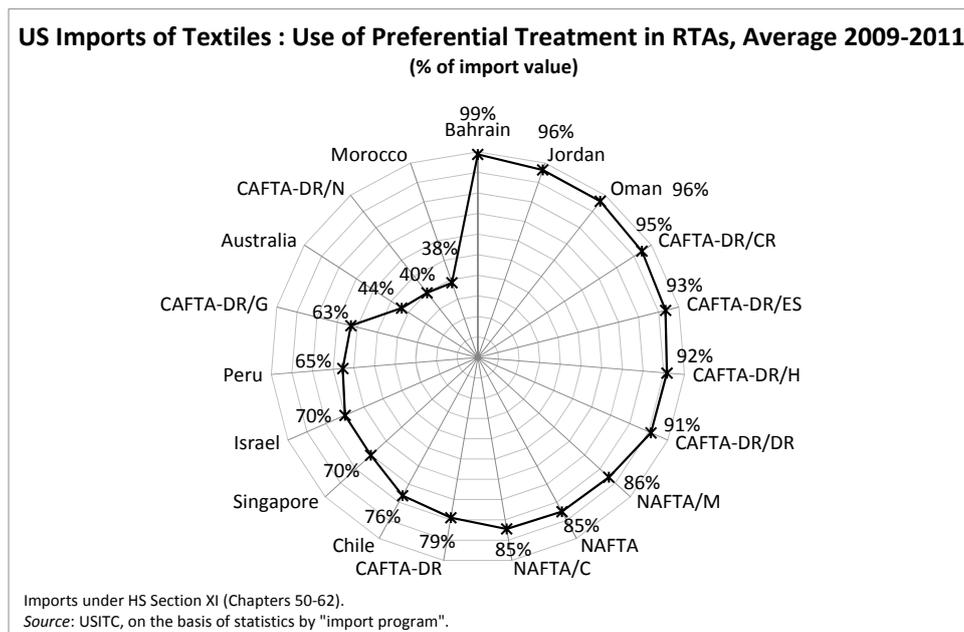
<sup>99</sup> Detailed information on rules of origin for textiles, as well as numerous statistics regarding US trade in textiles can be found at

<http://web.ita.doc.gov/tacgi/fta.nsf/fbf49a260d9c19b7852573750065b89a/70cf7aa5ff7bd90585257375006623f0?OpenDocument&country=FTA>

<sup>100</sup> Various reports from US agencies refer, however, to the concentration in the QIZ of textile and apparel production, the more modest results on trade between Jordan and Israel as well as the mixed results regarding the social impact of the QIZ. In particular, they point out that more than half of the QIZ workers are from southern Asia, and of various shortfalls regarding enforcement of labor laws within the QIZ. See e.g. Congressional Research Service, *Jordan: Background and U.S. Relations*, and *Qualifying Industrial Zones in Jordan and Egypt*, 24 July 2009, <http://fpc.state.gov/documents/organization/128834.pdf>.

<sup>101</sup> See e.g. <http://www.ustr.gov/about-us/press-office/fact-sheets/2011/may/cafta-dr-textiles>.

Chart A2.1



### 3. A Deeper Analysis of Utilization Rates of US RTAs

#### Trade under RTA preferences

Very high utilization rates of Jordan and Bahrain correspond to qualifying imports of textile products of HS Chapters 61 and 62. In the case of *Jordan*, about half of the non-qualifying imports correspond to these same products, and one-third to plastics articles for packing of goods which face an MFN rate of 3%. For *Bahrain*, about half of the non-qualifying imports refer to printed satin or twill and bed linen, facing MFN rates of 10.3% and 6.8% but duty-free under the RTA as from its entry into force. In the case of *Chile*, more generally, the main non-qualifying imports match the main imports under the RTA, with the exception of certain petroleum oils of heading 2710.11.25 - which enter under an MFN regime instead of the RTAs preferential regime that provides for duty-free from entry into force, on the basis of rules of origin requiring CTH or alternatively a CTC and a chemical reaction.

Intermediate utilization rates (between 87% and 70%) - are found for CAFTA-DR, Australia, NAFTA, Israel and Peru. For *CAFTA-DR*, in terms of importance of the non-use of preferences, once more products of HS Chapter 61 and 62 are the majority. In the case of *Australia*, the main products entering under the MFN regime are petroleum oils (HS 2709.00.10), wine (HS 2204.21.50), certain motor cars and other automotive parts (8703.24.00 and 8708.99.68). For petroleum oils, around 20% of imports enter without the RTAs preference; rules of origin require a CTH or a CTC and a chemical reaction, atmospheric distillation or vacuum distillation. For wine, the situation is similar to that of Chile - around 90% of wine imports enter under the RTA, even if preferential treatment (duty-free) only apply as from 2015. Around 30% of the imports of certain motor cars do not benefit from the RTAs preferences and thus pay a 2.5% tariff; the rules of origin require a CTH outside headings 8701-8705 and a minimum RVC of 50% (net cost method).<sup>102</sup> For automotive parts of 8708.99.68, imports outside the RTA (subject also to a 2.5% tariff) are 40% higher than those under the RTA; for this item, rules of origin require either a CTSUBH or a minimum RVC of 50% (net cost method). For *NAFTA*, the vast majority of non-qualifying products are petroleum oils of heading 2709; among the various other non-qualifying products, automobiles have a preponderant place. For Israel, the main non-qualifying import is X-rays apparatus (HS 9022.90.60) - accounting for around 22% of non-qualifying imports, and representing a value of almost 20 times that of the respective imports under the RTA. For this product, the MFN rate is 0.8% and trade is fully liberalized under the RTA. Finally for *Peru*, imports outside the RTA preferences vis-à-vis three products - unroasted molybdenum ores,

<sup>102</sup> The net cost method is calculated by deducting from the net cost of the good the value of non-originating materials.

naphthas and fuel oils (HS 2613.90.00, 2710.11.25 and 2710.19.05) - are of relevance. For these three products, MFN rates are specific, and imports under the RTA are duty-free from entry into force. In all cases, imports under RTA preferences are also of major importance - in the former, these are smaller than the non-qualifying imports, while the opposite is the case for the two others. For all molybdenum ores, the RTA rules of origin require a CTH, for naphthas it requires a CTSUBH provided good resulting from such change is the product of a chemical reaction, atmospheric distillation or vacuum distillation or CTH except from heading 22.07; for fuel oils, an additional alternative rule of origin also exists.

Lower utilization rates apply in the RTAs with Oman, Morocco and Singapore. In the case of *Oman*, if the bias of imports into free-trade zones and warehouses is disregarded, the utilization rate is around 80%; non-qualifying products are petroleum oils and mixture of hydrocarbons. All imports of the latter, and around one-third of the former, do not qualify under the RTAs' rules of origin (35% value-added) and thus have to pay the specific duty instead of benefitting from duty-free treatment. The bias of free-trade zones and warehouses also explains the low utilization rates of *US-Morocco*; once that is deducted, the utilization rate is around 70%. The main products that do not qualify for the preferences are textiles of HS 61 and 62 and dried berries (HS 0813.40.20), which have to pay a specific rate instead of entering duty-free.

#### *Trade under dutiable MFN*

MFN dutiable imports are of particular relevance for Oman, Guatemala and Nicaragua in the CAFTA-DR, and Morocco. In the case of Oman, virtually all dutiable imports are of crude petroleum oils and oils from bituminous minerals (HS 2709.00.20), which has an MFN ad valorem equivalent tariff rate of 0.1%, and which is fully liberalized by the RTA as from its entry into force on 1 January 2009. Irrespective of this, all imports in the period 2009-2011 have been carried out on an MFN basis. The factors that have to be considered are the RTA's rules of origin - wholly obtained or a minimum value-added requirement of 35% - and the very small margins of preference. For both Guatemala and Nicaragua, more than 90% of the dutiable imports refer to textiles of HS chapters 61 and 62, of which more than two-thirds are cotton T-shirts and sweaters (HS 6109.10.00 and 6110.20.20). These two items have an MFN rate of 16.5% while originating products are duty-free as from the entry into force of the RTA - i.e. 2006 for the three countries concerned. Given the high margin of preference provided for in the Agreement, it could be that textiles imports from these countries are not considered originating, thus not benefitting from the RTA's preferences. It is worth noting, however, that for these same tariff lines, imports totalling a similar amount have in turn been able to qualify under the RTA's rules of origin and thus benefit from duty-free entry.

As for Morocco, imports of textiles of HS Chapter 62 and of dried berries account for the majority of dutiable imports. For the latter, a specific MFN rate - with an AVE below 1% - applies, while it is duty free under the RTA as from entry into force (i.e. 2006); the preferential rules of origin require a change of Chapter. As for textiles of Chapter 62, MFN rates of at least 16.6% apply; duty-free applies either at entry into force or at the latest in 2011, subject to compliance with the rules of origin. Pending full tariff elimination, TRQs with reduced rates and more flexible rules of origin up to certain limits are being applied. Despite these preferences, on the basis of 2009-2011 average, only 37% of imports of this Chapter entered under the RTA.

### ANNEX 3

#### Tariff and imports: Absolute and Relative Margin of Preference, by duty range, in % of tariff lines At End Year of Implementation Period

**Table A3.1 Tariff and Imports: Share of Relative Margins of Preference by Duty Range, in %**

End Year of Implementation Period

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)									Imports (% to total average imports)								
		MFN duty-free	Preferential duty range							Total	MFN duty-free	Preferential duty range							Total
			0	0 <=5	5 <= 10	10 <= 30	30 < 100	100	NAV*			0	0 <=5	5 <= 10	10 < =30	30 < 100	100	NAV*	
Armenia-Moldova	Armenia	72.8						27.2		100.0	73.9						26.1		100.0
	Moldova	45.7						54.3		100.0	19.4						80.6		100.0
Armenia-Ukraine	Armenia	78.1						21.9		100.0	85.7						14.3		100.0
	Ukraine	30.9						69.1		100.0	13.4						86.6		100.0
Australia-Chile	Australia	46.2						53.8		100.0	80.7						19.3		100.0
	Chile	0.5						99.5	0.1	100.0	0.3						99.3	0.4	100.0
Japan-Brunei Darussalam	Japan	41.7	10.5					45.7	2.1	100.0	100.0	0.0					0.0		100.0
	Brunei Darussalam	74.7	0.0					25.2	0.1	100.0	90.7	0.0					9.3		100.0
Canada-EFTA	Canada-Iceland	54.4	3.0				0.1	41.9	0.6	100.0	80.2						19.8		100.0
	Canada-Norway	54.4	5.4				0.1	39.1	0.9	100.0	98.6	0.0			0.0	1.4	0.0	100.0	
	Canada-Switzerland	54.4	5.5				0.1	39.0	0.9	100.0	65.4	1.3			0.1	33.3	0.0	100.0	
	Iceland	69.7	3.7				0.0	25.3	1.4	100.0	82.3	3.1			1.5	12.9	0.2	100.0	
	Norway	84.0	1.0	0.0		0.0	0.1	5.3	9.6	100.0	99.4	0.0				0.2	0.4	100.0	
	Switzerland	17.7						63.5	18.8	100.0	49.2						50.0	0.8	100.0
Canada-Peru	Canada	54.4	1.1					44.2	0.3	100.0	59.9	0.0					40.1	0.0	100.0
	Peru	53.8	0.9					45.3		100.0	82.2	0.1					17.6		100.0
Chile-China	Chile	0.4	1.9					97.6		100.0		3.1					96.9		100.0
	China	8.5	2.8					88.7		100.0	38.9	0.9					60.2		100.0
Chile-Colombia	Chile	0.5					0.0	99.5		100.0							100.0		100.0
	Colombia	3.7						96.3		100.0	3.8						96.2		100.0
Chile-India	Chile	0.4	95.8		0.8	2.3	0.6	0.1		100.0		23.8		14.7	47.8	13.2	0.5		100.0

\* NAV: Percentage of lines for which MOPs are not available.

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)								Imports (% to total average imports)										
		MFN duty-free	Preferential duty range						Total	MFN duty-free	Preferential duty range						Total			
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100			NAV *	0	0 <= 5	5 <= 10	10 <= 30	30 < 100		100	NAV *	
	India	2.1	96.2			0.0	1.5	0.1		100.0	0.1	5.1			90.5	4.2	0.1		0.1	100.0
Colombia-Mexico	Colombia	1.3	1.4			0.3	3.6	0.3	93.1	100.0	3.8	1.2		0.1	0.1	0.1	94.7			100.0
	Mexico	9.0	1.1				2.0	0.0	87.7	100.0	42.8	0.3			1.4	0.0	53.7	1.7		100.0
Japan-Chile	Japan	41.7	8.7				0.1	0.1	47.3	100.0	69.3	1.9			0.4	5.5	22.7	0.2		100.0
	Chile	0.4	5.6				0.0	0.1	93.8	100.0	0.5	0.1				0.0	99.4			100.0
China-New Zealand	China	8.4	2.8						0.1	88.7	28.3	3.4				0.5	67.8			100.0
	New Zealand	57.6								42.4	37.4						62.6			100.0
Costa Rica-Mexico	Costa Rica		1.7					0.1	98.2	100.0		0.9				0.3	98.9			100.0
	Mexico	9.0	0.7	0.1			0.1	0.1	89.9	100.0	75.1	0.1				0.0	24.8			100.0
EU-Albania	EU	26.0	0.6				0.3	0.3	72.7	100.0	32.2	0.0			0.0	0.0	67.8			100.0
	Albania	33.2	6.3					1.0	59.5	100.0	30.3	2.8				10.9	56.0			100.0
EU-Egypt	EU	27.8	2.0					0.1	68.8	100.0										0.0
	Egypt	3.7	0.7			0.5	0.5	0.9	93.5	100.0										
EU-Montenegro	EU	24.4	0.5				0.6	0.1	72.9	100.0	15.4	0.0					84.5	0.2		100.0
	Montenegro	4.9	1.0				0.2	3.8	90.0	100.0	8.0	0.1			0.0	1.0	90.9			100.0
EU-Serbia	EU	24.7	0.3				0.6		72.8	100.0	38.7	0.2					57.3	3.8		100.0
	Serbia	1.1	1.3				0.1	3.6	94.0	100.0	1.8	0.4			0.0	0.5	97.4			100.0
EU-South Africa	EU	20.3	2.4	0.1		0.1	0.8	1.8	68.0	100.0										0.0
	South Africa	44.4	1.2				0.4	25.2	26.3	100.0										
EFTA-Chile	Iceland	70.1	1.1						24.1	100.0	99.0	0.0					1.0	0.0		100.0
	Norway	83.8	1.0	0.0			0.0	0.0	6.1	100.0	93.6	0.0					3.1	3.3		100.0
	Switzerland	17.0							62.8	100.0	4.5						52.3	43.2		100.0
	Chile-Iceland	0.5	10.5			0.3	0.2	0.2	88.3	100.0	0.0	8.3		0.7		0.1	91.0			100.0
	Chile-Norway	0.5	14.9			0.3	0.2	0.2	83.9	100.0	0.0	8.4		0.7		0.1	90.8			100.0
	Chile-Switzerland	0.5	15.3			0.3	0.2	0.2	83.5	100.0	0.0	10.8		0.7		0.1	88.4			100.0
EFTA-Egypt	Iceland	70.4	4.5						24.8	100.0	48.7	1.1					50.2	0.0		100.0
	Norway	83.6	0.7				0.2	0.2	6.0	100.0	69.1	0.1			0.0		28.6	2.2		100.0
	Switzerland	17.2							65.4	100.0	15.2						73.5	11.3		100.0
	Egypt-Iceland	8.6	12.7						78.6	100.0	26.0	0.6					73.4			100.0
	Egypt-Norway	8.6	12.7						78.6	100.0	51.1	3.3					45.6	0.0		100.0
	Egypt-Switzerland	8.6	12.7						78.6	100.0	17.4	20.4					57.3	4.9		100.0
EFTA-Korea	Iceland	70.9	3.7						24.0	100.0	81.3	0.0					18.7	0.0		100.0
	Norway	83.9	0.6	0.1		0.3	0.0	0.1	6.5	100.0	95.9	0.1					3.6	0.5		100.0
	Switzerland	17.5							66.5	100.0	26.1						73.9	0.1		100.0

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)									Imports (% to total average imports)								
		MFN duty-free	Preferential duty range							Total	MFN duty-free	Preferential duty range						Total	
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100	NAV*			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100		NAV*
	Korea-Iceland	13.3	6.3	0.0	1.4	2.6	0.6	75.7	0.1	100.0	35.9	0.4			0.3		63.4		100.0
	Korea-Norway	13.3	7.8	0.0	0.4	2.2	0.7	75.4	0.1	100.0	12.4	6.9		0.0	0.0	0.0	80.6		100.0
	Korea-Switzerland	13.3	9.1	0.0	0.5	1.1	0.7	75.2	0.1	100.0	19.2	0.6	0.0	0.1	0.1	0.6	79.4		100.0
EFTA-SACU	Iceland	69.4	1.2					24.4	5.1	100.0	94.2	0.0					5.5	0.3	100.0
	Norway	83.5	0.1		0.1	0.4	0.4	7.3	8.3	100.0	95.5	0.0				0.0	0.6	3.9	100.0
	Switzerland	18.4						66.1	15.6	100.0	2.9						95.7	1.4	100.0
	SACU-Iceland	54.1	10.0		0.1	0.1	11.8	23.0	0.8	100.0	90.6	0.5				0.4	8.5	0.0	100.0
	SACU-Norway	54.1	10.0		0.1	0.1	11.8	23.0	0.8	100.0	69.1	1.3		0.0	0.0	0.0	29.6	0.0	100.0
	SACU-Switzerland	54.1	8.9		0.1	0.1	11.7	23.0	2.1	100.0	87.4	2.2		0.0	0.0	0.5	7.8	2.0	100.0
EFTA-Tunisia	Iceland	70.2	5.3					23.4	1.1	100.0	42.6	0.0					57.4		100.0
	Norway	83.9	0.6	0.3			0.1	0.1	6.4	8.6	100.0	30.5					69.5	0.0	100.0
	Switzerland	17.5						62.6	19.9	100.0	10.9						87.8	1.2	100.0
	Tunisia-Iceland	14.6	23.0					62.3		100.0	1.9	53.5					44.6		100.0
	Tunisia-Norway	14.6	23.0					62.3		100.0	73.9	6.1					19.9		100.0
	Tunisia-Switzerland	14.6	23.0					62.3		100.0	17.2	29.0					53.7		100.0
Egypt-Turkey	Egypt	8.9	13.1					77.8	0.2	100.0	33.8	4.2					61.3	0.7	100.0
	Turkey	23.6	13.9				1.6	60.8	0.1	100.0	31.4	16.3				0.0	52.3		100.0
Hong Kong, China-New Zealand	Hong Kong, China	100.0								100.0	100.0								100.0
	New Zealand	57.7						42.3		100.0	52.5						47.5		100.0
India-Singapore	India	2.7	55.8				20.6	20.9	0.0	100.0	38.2	15.7				9.1	37.1		100.0
	Singapore	99.9						0.1		100.0	100.0						0.0		100.0
Japan-Indonesia	Japan	41.7	8.7			0.0	0.0	47.5	2.1	100.0	81.9	5.5			0.1	0.0	12.5	0.0	100.0
	Indonesia	24.0	5.8	0.2		0.1	0.2	69.5	0.2	100.0	33.4	6.7	0.2		0.0	0.8	58.9	0.0	100.0
Japan-Malaysia	Japan	41.7	7.8			0.0	0.0	48.4	2.1	100.0	83.2	5.5			0.0	0.0	11.2	0.1	100.0
	Malaysia	58.0	0.6			0.0	0.2	40.8	0.3	100.0	71.2	0.1				0.7	27.9	0.0	100.0
Japan-Mexico	Japan	41.7	10.7			0.1	0.3	45.4	1.9	100.0	64.0	12.1			0.7	0.7	22.2	0.3	100.0
	Mexico	17.7	4.6			0.0	1.0	76.3	0.3	100.0	45.8	0.9				0.2	53.0	0.0	100.0
Japan-Philippines	Japan	41.7	6.8		0.1	0.1	0.0	49.2	2.0	100.0	80.9	2.2		0.1	0.0	6.4	10.4	0.1	100.0
	Philippines	3.7	1.3			0.0	0.1	94.9		100.0	43.6	2.8			0.0	0.1	53.5		100.0
Japan-Switzerland	Japan	41.4	8.6			0.3	0.2	47.4	2.0	100.0	77.5	0.5			0.1	0.0	21.9	0.0	100.0
	Switzerland	17.6	10.3		0.0	0.0	0.7	68.0	3.4	100.0	20.0	0.1		0.0	0.0	0.0	79.9		100.0

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)									Imports (% to total average imports)								
		MFN duty-free	Preferential duty range							Total	MFN duty-free	Preferential duty range							Total
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100	NAV*			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100	NAV*	
Japan-Thailand	Japan	41.7	7.5		0.0	0.1	0.1	48.5	2.1	100.0	72.5	3.0		0.1	0.1	3.4	19.6	1.5	100.0
	Thailand	20.7	1.6		0.0	0.3	0.5	76.6	0.3	100.0	27.5	6.6		0.0	7.3	1.7	56.8	0.0	100.0
Japan-Viet Nam	Japan	41.4	7.7		0.1	0.1	0.6	47.9	2.1	100.0	65.5	2.9		0.0	0.0	0.4	31.0	0.2	100.0
	Viet Nam	29.6	6.1		0.3	0.5	0.9	62.0	0.6	100.0	47.8	7.5		0.0	0.6	1.5	42.4	0.3	100.0
Jordan-Singapore	Jordan	46.8	2.0				0.4	50.9		100.0	58.4						41.6		100.0
	Singapore	99.9						0.1		100.0	100.0								100.0
Korea-Chile	Korea	13.3	3.8					83.0		100.0									
	Chile	0.4	1.2					98.3		100.0									
Korea-Singapore	Korea	13.3	8.3					78.3	0.1	100.0	74.8	9.2					16.0		100.0
	Singapore	99.9						0.1		100.0	100.0						0.0		100.0
Kyrgyz Republic-Ukraine	Kyrgyz Republic							100.0		100.0									
	Ukraine	18.2						81.8		100.0									
Mexico-El Salvador	Mexico	1.3	1.8				0.6	96.1	0.2	100.0	0.6	0.0			0.3	99.1			100.0
	El Salvador	47.0	2.9			0.1	0.8	49.3		100.0	43.4	7.6		0.1	1.0	47.9			100.0
Mexico-Guatemala	Mexico	1.3	1.9				0.4	96.1	0.2	100.0	2.7	0.6			3.8	92.7	0.3		100.0
	Guatemala	46.7	3.6				0.6	49.1		100.0	46.7	3.6			0.6	49.1			100.0
Mexico-Honduras	Mexico	1.3	2.0				0.4	96.2	0.2	100.0	0.4	3.1			0.0	96.5			100.0
	Honduras		5.6				0.4	94.0		100.0		17.1			1.3	81.6			100.0
Mexico-Nicaragua	Mexico	14.1	0.1					85.7	0.1	100.0	73.8						26.2		100.0
	Nicaragua	45.8	0.2				0.3	53.7		100.0	56.1	0.3			0.1	43.5			100.0
Nicaragua-Chinese Taipei	Nicaragua	46.8	4.8					48.3		100.0	58.3	4.7					37.0		100.0
	Chinese Taipei	31.7	2.4				0.3	65.7		100.0	56.0	0.9					43.2		100.0
Pakistan-China	Pakistan	5.8	22.6	0.3	0.3	24.0	15.8	30.6	0.6	100.0	11.6	20.9	0.4	1.2	19.0	14.1	32.8	0.0	100.0
	China	8.4	13.0	0.1	3.2	17.3	31.0	27.1		100.0	3.7	6.2	0.0	0.8	61.2	1.6	26.6		100.0
Pakistan-Malaysia	Pakistan	5.0	25.6			16.6	13.1	39.2	0.6	100.0	5.6	14.9			7.6	1.4	14.1	56.4	100.0
	Malaysia	57.9	8.7			3.2	12.3	17.5	0.4	100.0	47.6	18.9			0.2	1.4	31.9	0.0	100.0
Pakistan-Sri Lanka	Pakistan		9.8			0.1	1.0	88.6	0.4	100.0		15.4			0.6	1.4	81.2	1.4	100.0
	Sri Lanka	11.5	16.5					70.6	1.3	100.0	18.6	18.5					61.0	1.9	100.0
Panama-Chile	Panama	31.1	2.7					66.2		100.0	43.4	8.6					47.9		100.0
	Chile	0.4	0.4					99.2		100.0		0.3					99.7		100.0
Panama-Chinese Taipei	Panama	29.7	4.9					65.4		100.0	21.5	1.9					76.5		100.0
	Chinese Taipei	31.0	1.7	0.0	0.1	0.2	0.5	66.4	0.1	100.0	89.8	0.4					9.8	0.0	100.0
Panama-Costa Rica	Panama	31.3	2.5				0.0	66.2		100.0	49.9	1.4					48.6		100.0
	Costa Rica	1.8	1.7					96.4		100.0	2.3	1.3					96.4		100.0
Panama-El Salvador	Panama	4.4	17.4					78.2		100.0	16.0	5.2					78.8		100.0

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)								Imports (% to total average imports)										
		MFN duty-free	Preferential duty range						Total	MFN duty-free	Preferential duty range						Total			
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100			NAV*	0	0 <= 5	5 <= 10	10 <= 30	30 < 100		100	NAV*	
	El Salvador	47.1	16.3					36.6		100.0	18.2	9.6						72.3		100.0
Panama-Singapore	Panama	29.7	2.6					0.0	67.6	100.0	39.2	0.8						60.1		100.0
	Singapore	99.9							0.1	100.0	100.0									100.0
Peru-China	Peru	53.8	8.1						38.1	100.0	62.9	9.0						28.2		100.0
	China	8.4	5.4						86.2	0.0	100.0	77.0	0.9					22.1		100.0
Peru-Singapore	Peru	53.8	0.0						46.2	100.0	84.0							16.0		100.0
	Singapore	99.9							0.1	100.0	100.0									100.0
Thailand-Australia	Thailand	6.2							93.8	100.0	36.9							63.1		100.0
	Australia	50.6							49.4	100.0	33.8							66.2		100.0
Thailand-New Zealand	Thailand	3.8							96.2	100.0	3.7							96.3		100.0
	New Zealand	58.6							41.4	100.0	64.1							35.9		100.0
Trans-Pacific Strategic Economic Partnership	Brunei Darussalam	68.1	0.0						31.1	0.8	100.0	79.0	0.0					20.3	0.7	100.0
	Chile	0.4	0.1						99.5		100.0		1.7					98.3		100.0
	New Zealand	58.6							41.4		100.0	92.7						7.3		100.0
	Singapore	99.9							0.1		100.0	100.0						0.0		100.0
Turkey-Albania	Turkey	23.8	15.0						61.2	0.0	100.0	59.5	7.5					33.0		100.0
	Albania	35.6	17.6						46.8		100.0	20.5	9.9					69.6		100.0
Turkey-Chile	Turkey	23.2	13.2			0.5	0.4		62.6	0.0	100.0	87.3	4.3		0.3	0.1		8.0		100.0
	Chile	0.5	1.5	0.2					97.8		100.0		0.0					100.0		100.0
Turkey-Georgia	Turkey	23.8	11.8			0.2	0.0		64.2		100.0	57.4	0.8					41.7		100.0
	Georgia	85.8	1.3						12.9		100.0	92.3	0.9					6.8		100.0
Turkey-Montenegro	Turkey	23.3	18.7						57.8	0.2	100.0	75.9	0.3					23.8		100.0
	Montenegro	4.8	19.0						73.2	2.9	100.0	2.3	9.6					87.9	0.2	100.0
Turkey-Morocco	Turkey	23.8	16.7			0.1	1.0		58.4	0.1	100.0	39.1	2.4					58.5		100.0
	Morocco	0.1	13.6				0.2		86.2		100.0	0.7	3.3			0.0		96.0		100.0
Turkey-Serbia	Turkey	23.4	15.2						60.2	1.2	100.0	42.2	12.5					43.7	1.6	100.0
	Serbia	1.1	24.3						74.6		100.0	0.4	9.2					90.4		100.0
Turkey-Tunisia	Turkey	24.2	16.2	0.3					59.2	0.1	100.0	24.2	0.8					75.0		100.0
	Tunisia	14.9	23.5						61.6		100.0	24.8	3.5					71.7		100.0
Ukraine-FYROM	Ukraine	17.3	5.0						68.5	9.2	100.0	15.0	3.0					19.3	62.7	100.0
	FYROM	3.0	23.0						74.0		100.0	21.9	9.1					69.0		100.0
Ukraine-Moldova	Ukraine	30.5	0.0						69.4	0.1	100.0	14.0	0.0					85.8	0.1	100.0
	Moldova	46.4	0.3						52.2	1.1	100.0	50.1	0.2					49.1	0.5	100.0
US-Australia	US	37.6	0.8						60.8	0.8	100.0	49.3	0.1					50.6	0.0	100.0
	Australia	47.6							52.4		100.0	57.6						42.4		100.0

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)								Imports (% to total average imports)									
		MFN duty-free	Preferential duty range						Total	MFN duty-free	Preferential duty range						Total		
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100			NAV*	0	0 <= 5	5 <= 10	10 <= 30	30 < 100		100	NAV*
US-Morocco	US	37.6						62.4		100.0	55.6						44.4		100.0
	Morocco	0.1	0.6					0.0	99.4	100.0	0.9	1.2				4.6	93.3		100.0
US-Peru	US	36.4	0.5					63.1		100.0	36.1	0.0					63.9		100.0
	Peru	53.3						46.7		100.0	83.4						16.6		100.0

Source: WTO database.

**Table A3.2 Tariff and Imports: Share of Absolute Margins of Preference by Duty Range, in %**

End Year of Implementation Period

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)								Imports (% to total average imports)									
		MFN duty-free	Preferential duty range						Total	MFN duty-free	Preferential duty range						Total		
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	> 100			NAV	0	0 <= 5	5 <= 10	10 <= 30	30 < 100		100	NAV
Armenia-Moldova	Armenia	72.8			26.8				0.4	100.0									0.0
	Moldova	45.7		15.3	15.6	20.9	0.0		2.5	100.0									0.0
Armenia-Ukraine	Armenia	78.1			21.9					100.0									0.0
	Ukraine	30.9		32.4	17.4	11.5			7.7	100.0									0.0
Australia-Chile	Australia	46.2		40.3	9.5	3.7			0.3	100.0	80.7		18.9	0.4	0.0			0.0	100.0
	Chile	0.5			99.3	0.2	0.0		0.1	100.0	0.3			98.7	0.0	0.5		0.4	100.0
Japan-Brunei Darussalam	Japan	41.7	10.5	26.4	16.3	2.6	0.0		2.5	100.0	100.0	0.0	0.0	0.0	0.0			0.0	100.0
	Brunei Darussalam	74.7	0.0	8.2	1.2	15.3			0.6	100.0	90.7	0.0	3.0	0.1	6.2			0.0	100.0
Canada-EFTA	Canada-Iceland	54.4	3.0	11.4	19.1	11.0			1.1	100.0	80.2		16.5	2.5	0.5			0.3	100.0
	Canada-Norway	54.4	5.4	10.8	17.7	10.5			1.1	100.0	98.6	0.0	0.4	0.9	0.1			0.0	100.0
	Canada-Switzerland	54.4	5.5	10.8	17.7	10.4			1.1	100.0	65.4	1.3	7.5	24.9	0.9			0.1	100.0
	Iceland	69.7	3.7	4.8	13.3	7.9	0.0		0.7	100.0									0.0
	Norway	84.0	1.0	0.5	3.1	0.4	0.0		10.9	100.0									0.0
	Switzerland	17.7							82.3	100.0									0.0
Canada-Peru	Canada	54.4	1.1	11.8	20.1	11.5	0.0	0.0	1.1	100.0	59.9	0.0	4.9	30.5	4.0	0.0		0.7	100.0
	Peru	53.8	0.9		34.7	10.6				100.0	82.2	0.1		17.3	0.4				100.0
Chile-China	Chile	0.4	1.9		97.5	0.1				100.0		3.1		96.9					100.0

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)									Imports (% to total average imports)								
		MFN duty-free	Preferential duty range						Total	MFN duty-free	Preferential duty range						Total		
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	> 100			NAV	0	0 <= 5	5 <= 10	10 <= 30	30 < 100		100	NAV
	China	8.5	2.8	21.0	37.6	28.8	0.6		0.6	100.0	38.9	0.9	57.1	1.0	2.1	0.0		0.0	100.0
Chile-Colombia	Chile	0.5		0.0	99.4	0.2				100.0				100.0					100.0
	Colombia	3.7		32.4	14.6	48.2	1.0			100.0	3.8		18.2	14.5	63.0	0.5			100.0
Chile-India	Chile	0.4	95.8	3.7	0.1					100.0									0.0
	India	2.1	96.2	0.9	0.6	0.0			0.0	100.0									0.0
Colombia-Mexico	Colombia	1.3	1.4	37.6	16.0	43.4	0.3			100.0	3.8	1.2	47.3	8.9	27.9	11.0			100.0
	Mexico	9.0	1.1	2.5	42.3	42.1	2.8	0.0	0.2	100.0	42.8	0.3	1.6	13.4	30.7	9.2	0.1	1.7	100.0
Japan-Chile	Japan	41.7	8.7	26.5	16.8	3.3	0.0		2.9	100.0	69.3	1.9	21.8	2.4	0.6			4.0	100.0
	Chile	0.4	5.6	0.1	93.8	0.0				100.0	0.5	0.1	0.0	99.4					100.0
China-New Zealand	China	8.4	2.8	21.1	38.1	28.3	0.7		0.6	100.0	28.3	3.4	10.9	43.4	13.9	0.0		0.0	100.0
	New Zealand	57.6		36.3		5.6			0.5	100.0	37.4		41.9		20.5			0.2	100.0
Costa Rica-Mexico	Costa Rica		1.7	1.9	63.3	27.4	5.7	0.0		100.0		0.9	2.3	58.5	36.7	1.7	0.1		100.0
	Mexico	9.0	0.7	0.8	43.4	43.1	2.8	0.1	0.0	100.0	75.1	0.1	0.4	10.9	11.5	2.0			100.0
EU-Albania	EU	26.0	0.6	37.3	19.0	13.2	2.6	0.3	1.0	100.0	32.2	0.0	35.4	6.8	25.6	0.0			100.0
	Albania	33.2	6.3	21.6	25.4	13.5				100.0	30.3	2.8	15.2	30.1	21.6				100.0
EU-Egypt	EU	27.8	2.0	34.8	18.2	10.9	0.1	0.0	6.1	100.0									0.0
	Egypt	3.7	0.7	50.3	0.4	27.6	16.8	0.2	0.3	100.0									0.0
EU-Montenegro	EU	24.4	0.5	37.3	19.6	11.2	0.2		6.7	100.0	15.4	0.0	2.8	80.9	0.8	0.0		0.2	100.0
	Montenegro	4.9	1.0	62.8	20.1	11.0			0.1	100.0	8.0	0.1	65.0	18.8	5.5			2.6	100.0
EU-Serbia	EU	24.7	0.3	37.2	19.4	11.0	0.3		7.1	100.0	38.7	0.2	24.7	11.7	9.2	0.0		15.5	100.0
	Serbia	1.1	1.3	52.0	22.1	23.5				100.0	1.8	0.4	56.8	18.8	22.2				100.0
EU-South Africa	EU	20.3	2.4	43.1	18.0	9.3	0.2		6.7	100.0									0.0
	South Africa	44.4	1.2	4.7	8.8	35.0	3.4		2.6	100.0									0.0
EFTA-Chile	Iceland	70.1	1.1	4.8	12.7	6.6	0.1		4.7	100.0	99.0	0.0	0.0	0.6	0.5			0.0	100.0
	Norway	83.8	1.0	0.5	2.1	2.1		0.0	10.4	100.0	93.6	0.0	0.0	0.0	0.0			6.4	100.0



Agreement	Party to the Agreement	Tariff line (% to total no. of lines)									Imports (% to total average imports)								
		MFN duty-free	Preferential duty range							Total	MFN duty-free	Preferential duty range							Total
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	> 100	NAV			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100	NAV	
	Switzerland	17.5							82.5	100.0									0.0
	Tunisia-Iceland	14.6	23.0		12.8	25.2	24.3			100.0	1.9	53.5		10.1	14.9	19.6			100.0
	Tunisia-Norway	14.6	23.0		12.8	25.2	24.3			100.0	73.9	6.1		6.7	7.0	6.3			100.0
	Tunisia-Switzerland	14.6	23.0		12.8	25.2	24.3			100.0	17.2	29.0		11.4	19.8	22.6			100.0
Egypt-Turkey	Egypt	8.9	13.1	43.8	18.2	15.5	0.2	0.1	0.2	100.0	33.8	4.2	42.2	8.2	6.7	3.2	1.0	0.7	100.0
	Turkey	23.6	13.9	35.2	19.4	7.7			0.2	100.0									0.0
Hong Kong, China-New Zealand	Hong Kong, China	100.0								100.0	100.0								100.0
	New Zealand	57.7		36.2	5.5				0.5	100.0	52.5		35.0	12.3				0.1	100.0
India-Singapore	India	2.7	55.8	2.2	19.9	19.3	0.0		0.0	100.0	38.2	15.7	10.4	10.4	25.4	0.0			100.0
	Singapore	99.9							0.1	100.0									0.0
Japan-Indonesia	Japan	41.7	8.7	26.5	17.1	3.4	0.0		2.5	100.0	81.9	5.5	7.8	2.3	0.0			2.5	100.0
	Indonesia	24.0	5.8	40.0	15.3	13.4	1.3		0.2	100.0	33.4	6.7	26.7	8.6	23.0	1.6		0.0	100.0
Japan-Malaysia	Japan	41.7	7.8	26.4	17.1	4.0	0.1		3.0	100.0	83.2	5.5	9.7	1.2	0.0			0.3	100.0
	Malaysia	58.0	0.6	8.4	7.3	22.9	2.5		0.3	100.0	71.2	0.1	7.4	5.0	12.5	3.6		0.0	100.0
Japan-Mexico	Japan	41.7	10.7	25.5	16.8	2.5	0.0		2.7	100.0	64.0	12.1	14.5	4.6	0.3			4.5	100.0
	Mexico	17.7	4.6	0.9	34.0	38.1	4.3	0.1	0.3	100.0	45.8	0.9	0.3	21.8	31.0	0.1	0.0	0.0	100.0
Japan-Philippines	Japan	41.7	6.8	27.3	17.5	4.2	0.1		2.5	100.0	80.9	2.2	8.7	1.6	6.6	0.0		0.1	100.0
	Philippines	3.7	1.3	56.5	22.3	15.0	1.2			100.0	43.6	2.8	36.2	10.1	7.2	0.0			100.0
Japan-Switzerland	Japan	41.4	8.6	27.1	16.5	3.9	0.0		2.5	100.0	77.5	0.5	20.6	1.1	0.3			0.0	100.0
	Switzerland	17.6	10.3	58.9	5.6	2.8	0.5	0.0	4.2	100.0									0.0
Japan-Thailand	Japan	41.7	7.5	26.9	17.2	4.1	0.1		2.5	100.0	72.5	3.0	17.0	5.3	0.4			1.9	100.0
	Thailand	20.7	1.6	35.5	16.2	21.7	2.8		1.5	100.0	27.5	6.6	34.2	25.2	6.2	0.3		0.0	100.0
Japan-Viet Nam	Japan	41.4	7.7	27.7	16.7	3.8	0.1		2.5	100.0	65.5	2.9	14.9	16.2	0.2			0.3	100.0
	Viet Nam	29.6	6.1	20.3	10.1	27.9	5.3		0.6	100.0	47.8	7.5	16.9	7.3	19.6	0.6		0.3	100.0
Jordan-Singapore	Jordan	46.8	2.0	6.2	9.8	35.0	0.2			100.0	58.4		3.2	6.4	31.9	0.0			100.0

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)									Imports (% to total average imports)								
		MFN duty-free	Preferential duty range						Total	MFN duty-free	Preferential duty range						Total		
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	> 100			NAV	0	0 <= 5	5 <= 10	10 <= 30	30 < 100		100	NAV
	Singapore	99.9							0.1	100.0									0.0
Korea-Chile	Korea <sup>1/</sup>	13.3	3.8	16.6	55.7	9.8	0.8	0.0	0.0	100.0									0.0
	Chile <sup>1/</sup>	0.4	1.2		98.2	0.1				100.0									0.0
Korea-Singapore	Korea	13.3	8.3	16.1	53.1	8.2	0.8	0.1	0.1	100.0	74.8	9.2	4.3	11.2	0.5	0.1			100.0
	Singapore	99.9							0.1	100.0									0.0
Kyrgyz Republic-Ukraine	Kyrgyz Republic <sup>1/</sup>				100.0					100.0									0.0
	Ukraine <sup>1/</sup>	18.2		35.2	15.9	14.8	0.3		15.6	100.0									0.0
Mexico-El Salvador	Mexico	1.3	1.8	14.4	2.1	75.7	4.4	0.1	0.2	100.0	0.6	0.0	6.9	12.2	64.0	16.3			100.0
	El Salvador	47.0	2.9	12.1	10.3	27.2	0.5			100.0	43.4	7.6	24.2	7.1	17.4	0.3			100.0
Mexico-Guatemala	Mexico	1.3	1.9	14.3	1.9	75.8	4.4	0.1	0.2	100.0	2.7	0.6	31.1	22.9	38.5	3.9		0.3	100.0
	Guatemala	46.7	3.6	10.6	11.5	27.5				100.0	45.8	9.9	11.3	17.0	16.0				100.0
Mexico-Honduras	Mexico	1.3	2.0	14.3	1.9	75.7	4.4	0.1	0.2	100.0	0.4	3.1	18.3	35.6	19.7	22.8	0.0		100.0
	Honduras		5.6	57.5	12.6	24.3				100.0		17.1	52.7	8.7	21.4				100.0
Mexico-Nicaragua	Mexico	14.1	0.1	0.8	37.4	42.6	4.5	0.3	0.2	100.0	73.8		4.6	0.3	6.2	0.4	14.7		100.0
	Nicaragua	45.8	0.2	12.0	13.8	28.0	0.2	0.0		100.0	56.1	0.3	17.2	5.8	20.6				100.0
Nicaragua-Chinese Taipei	Nicaragua	46.8	4.8	13.6	16.6	17.7	0.5			100.0	58.3	4.7	18.8	10.2	8.0	0.0			100.0
	Chinese Taipei	31.7	2.4	33.7	18.4	13.0	0.8	0.0		100.0	56.0	0.9	1.3	0.9	41.0	0.0			100.0
Pakistan-China	Pakistan	5.8	22.6	59.9	5.4	5.7	0.0		0.6	100.0	11.6	20.9	61.1	4.5	1.8	0.0		0.0	100.0
	China	8.4	13.0	59.6	15.5	3.5	0.0			100.0	3.7	6.2	76.2	13.1	0.8				100.0
Pakistan-Malaysia	Pakistan	5.0	25.6	54.0	7.2	7.6			0.7	100.0	5.6	14.9	20.9	1.8	0.4			56.4	100.0
	Malaysia	57.9	8.7	14.3	13.7	4.8	0.2		0.4	100.0	47.6	18.9	3.3	23.4	6.7			0.0	100.0
Pakistan-Sri Lanka	Pakistan		9.8	40.5	12.8	35.2	0.9		0.8	100.0		17.5	31.8	33.8	8.9	0.1		7.9	100.0
	Sri Lanka <sup>2/</sup>	11.5	16.5	31.4	6.2	32.6			1.7	100.0	56.4	12.6	3.7	0.5	9.4			17.4	100.0
Panama-Chile	Panama	31.1	2.7	13.1	22.9	30.0	0.1			100.0	43.4	8.6	8.9	21.2	17.2	0.6			100.0
	Chile	0.4	0.4		99.1	0.1				100.0		0.3		99.7					100.0

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)									Imports (% to total average imports)								
		MFN duty-free	Preferential duty range							Total	MFN duty-free	Preferential duty range							Total
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	> 100	NAV			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100	NAV	
Panama-Chinese Taipei	Panama	29.7	4.9	12.6	22.4	30.3	0.1	0.0	0.0	100.0	21.5	1.9	23.5	40.4	12.6				100.0
	Chinese Taipei	31.0	1.7	33.4	19.1	13.0	1.4	0.2	0.1	100.0	89.8	0.4	0.1	0.2	8.7	0.7		0.0	100.0
Panama-Costa Rica	Panama	31.3	2.5	12.6	22.9	30.3	0.4	0.1		100.0	49.9	1.4	7.2	21.6	18.6	1.1	0.1		100.0
	Costa Rica	1.8	1.7	46.9	28.0	20.6	0.9	0.1		100.0	2.3	1.3	45.5	22.7	26.0	2.2	0.0		100.0
Panama-El Salvador	Panama	4.4	17.4	32.5	17.7	27.8	0.2	0.0		100.0	16.0	5.2	32.7	7.7	37.7	0.6	0.0		100.0
	El Salvador	47.1	16.3	11.0	9.7	15.9	0.0			100.0	18.2	9.6	14.4	9.6	48.3				100.0
Panama-Singapore	Panama	29.7	2.6	13.2	22.0	32.3	0.1	0.0	0.0	100.0	39.2	0.8	30.1	20.2	9.7				100.0
	Singapore	99.9							0.1	100.0									0.0
Peru-China	Peru	53.8	8.1		33.8	4.3				100.0									0.0
	China	8.4	5.4	20.6	37.6	26.8	0.6		0.6	100.0									0.0
Peru-Singapore	Peru	53.8	0.0		35.4	10.7				100.0	84.0			15.4	0.6				100.0
	Singapore	99.9							0.1	100.0									0.0
Thailand-Australia	Thailand	6.2		33.0	14.8	36.6	8.1	0.0	1.4	100.0	36.9		42.2	6.7	7.8	1.5	0.0	4.8	100.0
	Australia	50.6		35.9	4.4	9.1				100.0	33.8		55.5	7.2	3.5				100.0
Thailand-New Zealand	Thailand	3.8		41.3	11.3	35.8	6.4	0.1	1.3	100.0	3.7		59.7	4.1	30.9	1.3	0.0	0.3	100.0
	New Zealand	58.6		6.9	26.4	7.7			0.5	100.0	64.1		4.6	29.5	1.8			0.0	100.0
Trans-Pacific Strategic Economic Partnership	Brunei Darussalam	68.1	0.0	8.2	1.2	21.3			1.2	100.0	79.0	0.0	10.2	0.2	8.2			2.5	100.0
	Chile	0.4	0.1		98.9	0.1	0.4			100.0		1.7		98.3		0.0			100.0
	New Zealand	58.6		6.9	26.4	7.7			0.5	100.0	92.7		1.4	5.5	0.1			0.2	100.0
	Singapore	99.9							0.1	100.0									0.0
Turkey-Albania	Turkey	23.8	15.0	35.0	19.8	6.2			0.2	100.0									0.0
	Albania	35.6	17.6	20.6	14.6	11.6				100.0	20.5	9.9	32.9	23.6	13.1				100.0
Turkey-Chile	Turkey	23.2	13.2	35.9	19.9	7.5	0.1		0.2	100.0									0.0
	Chile	0.5	1.5	0.2	97.8					100.0		0.0		100.					100.0

Agreement	Party to the Agreement	Tariff line (% to total no. of lines)									Imports (% to total average imports)									
		MFN duty-free	Preferential duty range							Total	MFN duty-free	Preferential duty range							Total	
			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	> 100	NAV			0	0 <= 5	5 <= 10	10 <= 30	30 < 100	100	NAV		
Turkey-Georgia	Turkey	23.8	11.8	35.4	20.2	7.4	1.3	0.0	0.2	100.0										0.0
	Georgia	85.8	1.3	0.6		10.6			1.7	100.0										0.0
Turkey-Montenegro	Turkey	23.3	18.7	35.6	17.4	4.8			0.2	100.0										0.0
	Montenegro	4.8	19.0	56.0	15.2	2.0			2.9	100.0	2.3	9.6	51.8	34.3	1.8				0.2	100.0
Turkey-Morocco	Turkey	23.8	16.7	36.4	17.1	4.8	1.1		0.1	100.0										0.0
	Morocco	0.1	13.6	15.7	29.5	14.3	26.9			100.0	0.7	3.3	36.2	11.5	25.2	23.1				100.0
Turkey-Serbia	Turkey	23.4	15.2	35.3	18.6	6.0			1.6	100.0										0.0
	Serbia	1.1	24.3	46.0	18.2	10.4				100.0	0.4	9.7	32.9	23.7	33.3					100.0
Turkey-Tunisia	Turkey	24.2	16.5	33.5	19.1	6.5			0.2	100.0										0.0
	Tunisia	14.9	23.5		12.6	25.3	23.7			100.0	24.8	3.5		4.4	20.8	46.5				100.0
Ukraine-FYROM	Ukraine	17.3	5.0	32.8	15.2	19.5			10.3	100.0	15.0	3.0	4.6	7.6	6.3				63.5	100.0
	FYROM	3.0	23.0	31.0	11.3	27.0	4.7			100.0	21.9	9.1	67.3	0.6	1.1	0.0				100.0
Ukraine-Moldova	Ukraine	30.5	0.0	32.4	18.4	12.7	0.1		5.9	100.0										0.0
	Moldova	46.4	0.3	18.8	16.8	15.2			2.5	100.0										0.0
US-Australia	US	37.6	0.8	31.2	15.3	7.4	0.4	0.1	7.3	100.0	49.3	0.1	20.2	2.4	3.8	0.4			23.8	100.0
	Australia	47.6		38.7	2.4	11.3			0.1	100.0	57.6		36.4	0.2	5.7				0.0	100.0
US-Morocco	US	37.6		31.0	15.8	7.5	0.4	0.1	7.6	100.0	55.6		3.9	5.1	14.1	0.2			21.1	100.0
	Morocco	0.1	0.6	15.6	28.8	15.3	38.5	1.2		100.0	0.9	1.2	57.3	25.0	4.3	11.3				100.0
US-Peru	US	36.4	0.5	36.5	16.6	8.8	0.8	0.1	0.2	100.0	36.1	0.0	42.5	2.8	17.8	0.7			0.1	100.0
	Peru	53.3			35.5	11.2				100.0	83.4			16.0	0.6					100.0

Notes:

\* Contains data on entry-into-force.

<sup>1/</sup> No import data.

<sup>2/</sup> MFN entry into force year=2005; MFN year used to compare the end of the liberalization period=2008.

Source: WTO database.

## LIST OF ABBREVIATIONS

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
ACP	Africa, Caribbean and Pacific Group of States
APEC	Asia Pacific Economic Cooperation
APTA	Asia Pacific Trade Agreement
ASEAN	Association of Southeast Asian Nations
AVE	Ad-valorem equivalent
CACM	Central American Common Market
CAFTA-DR	Dominican Republic-Central America-United States Free Trade Agreement
CARICOM	Caribbean Community and Common Market
CARIFORUM	Forum of the Caribbean ACP States
CEMAC	Economic and Monetary Community of Central Africa
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
CTC	Change of tariff classification
CTCh	Change of tariff chapter
CTH	Change of tariff heading
CTSubH	Change of tariff subheading
DD	Developed economy
DFQF	Duty-free quota-free
DG	Developing economy
EBA	Everything But Arms
EEA	European Economic Area
EFTA	European Free Trade Association
EIF	Entry into force
EOI	End of implementation
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Agreement
FYROM	Former Yugoslav Republic of Macedonia
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
HS	Harmonized System
IDB	Inter-American Development Bank
LAIA	Latin American Integration Association
LDCs	Least developed countries
MERCOSUR	Southern Common Market
MFN	Most favoured nation
MOP	Margin of preference
NAFTA	North American Free Trade Agreement
OCT	Other countries and territories
PRO	Preferential rules of origin
QIZ	Qualifying Industrial Zone
RVC	Regional value content
SACU	Southern African Customs Union
SAFTA	South Asian Free Trade Area
SAP	Stabilization and Association Process
SAPTA	South Asian Preferential Trade Arrangement
TPSEP	Trans-Pacific Strategic Economic Partnership Agreement
TRQ	Tariff-rate quota
USITC	United States International Trade Commission
WB, G	West Bank and Gaza Strip
WTO	World Trade Organization

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