Rules of origin and their cost implications

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1. Different types of compliance costs

2. What we know about compliance costs

3. Research agenda on compliance costs of rules of origin - what we do not know about compliance costs
Different types of compliance costs

Overall
• Transparency, Cost of certificates, de minimis

Non-preferential
• Quotas
• Government procurement
• Anti-dumping

Preferential
• Origin criteria
• Direct consignment
• Supply chain considerations
• Investment
What we know about compliance costs I

• Estimates of **compliance costs** associated with rules of origin:
  - NAFTA 6.8% (Cadot et al., 2006)
  - PANEURO 8% (Cadot et al., 2006)

• **Utilization** increases with preferential **margin** and the **volume** of exports. **Transaction-level fixed costs** to be on the order of **USD 14 to USD 1,500**. (Keck and Lendle, 2012)

• **Cost of complying** with rules of origin in the case of Colombia are **higher for larger firms** because those tend to **source internationally** their intermediates (Cadot et al. 2014)

• **Trade diversion**: NAFTA RoO on final goods resulted in a reduction of intermediate imports from non-member countries by around 30% (Conconi et al. 2018)
What we know about compliance costs II

• More flexible RoO, which allow more foreign intermediate inputs in production, lead to more FDI (Estevadeordal et al., 2011)

• Restrictiveness of RoO reduce aggregate trade flows; regime-wide RoO—and lenient application of product-specific RoO boost trade; restrictive RoO in final goods increase trade in intermediates; and exporters learn to apply RoO over time (Estevadeordal et al., 2011)

• Cumulation has a positive effect on the value of exports, and the number of exported products (Andersson, 2016)
In 86% of all bilateral product-level comparisons within FTAs, trade deflection is not profitable because external tariffs are rather similar and transportation costs are non-negligible (Felbermayr et al. 2019).

In the case of unilateral trade preferences extended by rich countries to poor ones that ratio is a striking 98%. The pervasive and unconditional use of RoOs is, therefore, hard to rationalize. (Felbermayr et al. 2019)
Research agenda on compliance costs

• Preference utilization determinants:
  • Origin criteria – are there rules that are too strict?
  • Direct consignment – does transport mode matter?
  • Cost of certificates – are they too high for small traders?
  • Preference margin – are compliance costs too high for small margins?

• Rules of origin
  • Firm-level costs of compliance
  • Which aspects of RoO are the most costly to comply with?
  • What is the link with Trade Facilitation?
Thank you!

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References


