

THE 25TH ANNIVERSARY OF THE WTO AGREEMENT ON
RULES OF ORIGIN, 04 March 2020

Rules of origin and their cost implications

Simon Neumueller

**Market Access Division
WTO Secretariat**



This presentation is the responsibility of the author and is without prejudice to the positions of WTO Members and to their rights and obligations under the WTO.

Contents of this presentation:



WTO OMC

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



WTO OMC

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



WTO OMC

- 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



WTO OMC

- 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)

What we know about compliance costs III



WTO OMC

- 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



WTO OMC

- 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?



WTO OMC

Thank you!

Simon Neumueller

Market Access Division

Simon.Neumueller@wto.org

References



Andersson, A. (2016). Export performance and access to intermediate inputs: the case of rules of origin liberalisation. *The World Economy*, 39(8), 1048-1079.

Cadot, O., Carrère, C., De Melo, J., & Tumurchudur, B. (2006). Product-specific rules of origin in EU and US preferential trading arrangements: an assessment. *World Trade Review*, 5(2), 199-224.

Cadot, O., Graziano, A., Harris, J., & Volpe, C. (2014). Do Rules of Origin Constrain Export Growth?. IDB Integration and Trade Sector No. IDB-DP-350.

Conconi, P., García-Santana, M., Puccio, L., & Venturini, R. (2018). From final goods to inputs: the protectionist effect of rules of origin. *American Economic Review*, 108(8), 2335-65.

Estevadeordal, A., Suominen, K., Harris, J., & López Córdova, J. E. (2011). Gatekeepers of global commerce: rules of origin and international economic integration. *IDB Publications (Books)*.

Felbermayr, G., Teti, F., & Yalcin, E. (2019). Rules of origin and the profitability of trade deflection. *Journal of International Economics*, 121, 103248.

Keck, A., & Lendle, A. (2012). New evidence on preference utilization. World Trade Organization Staff Working Paper No. ERSD-2012-12.