Monitoring the Utilization of Trade Agreements: The experience of Chile

WTO Committee on Rules of Origin Webinar: What drives the utilization of trade preferences? (2)

Subsecretaría de Relaciones Económicas Internacionales
Gobierno de Chile

Ingrid Garrido

Market Access Division

Undersecretariat of International Economic Relations

CONTENTS

1. Introduction: Monitoring the utilization of RTAs/PTAs

Incentives

- Indicator of RTA/PTA effectiveness
- Allows the observation of utilization/under-utilization rates by RTAs/PTAs and/or by sector
- Finding spaces to improve RTAs/PTAs provisions and making data-driven decisions.
- Comparison of the utilization of two (or more) different overlapping RTAs/PTAs

Main indicators

- % of imports/exports (total and eligible) using Trade Agreements
- Trade-weighted average tariff (not likely to obtain for exports, but feasible)

1. Introduction: Monitoring the utilization of RTAs/PTAs

Data available

Imports – National Customs Service

- Databases extracted from Customs Declarations
- Dashboard: trade-weighted advalorem duty and utilization of Trade Agreements

Exports

- Publicly available Import Databases from Trade Partners
- Databases provided by Trade Partners (subject to National Regulation on dissemination)

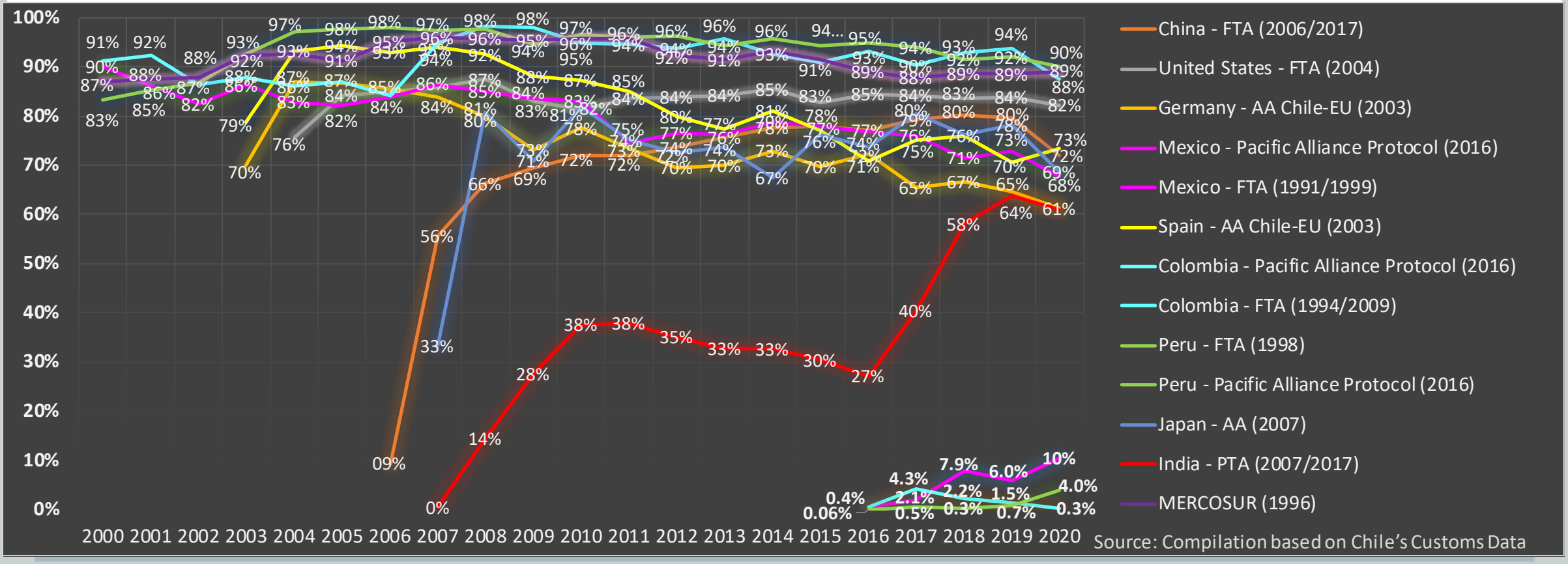
Tariffs

- Databases publicly available
- Databases provided by Trade Partners (subject to National Regulation on dissemination)

2. Experience of Chile: calculating RTAs/PTAs utilization

A. Analysis using Databases Publicly Available

Imports – National Customs Service Data: Share of bilateral imports using Trade Agreements (by FTA or country)

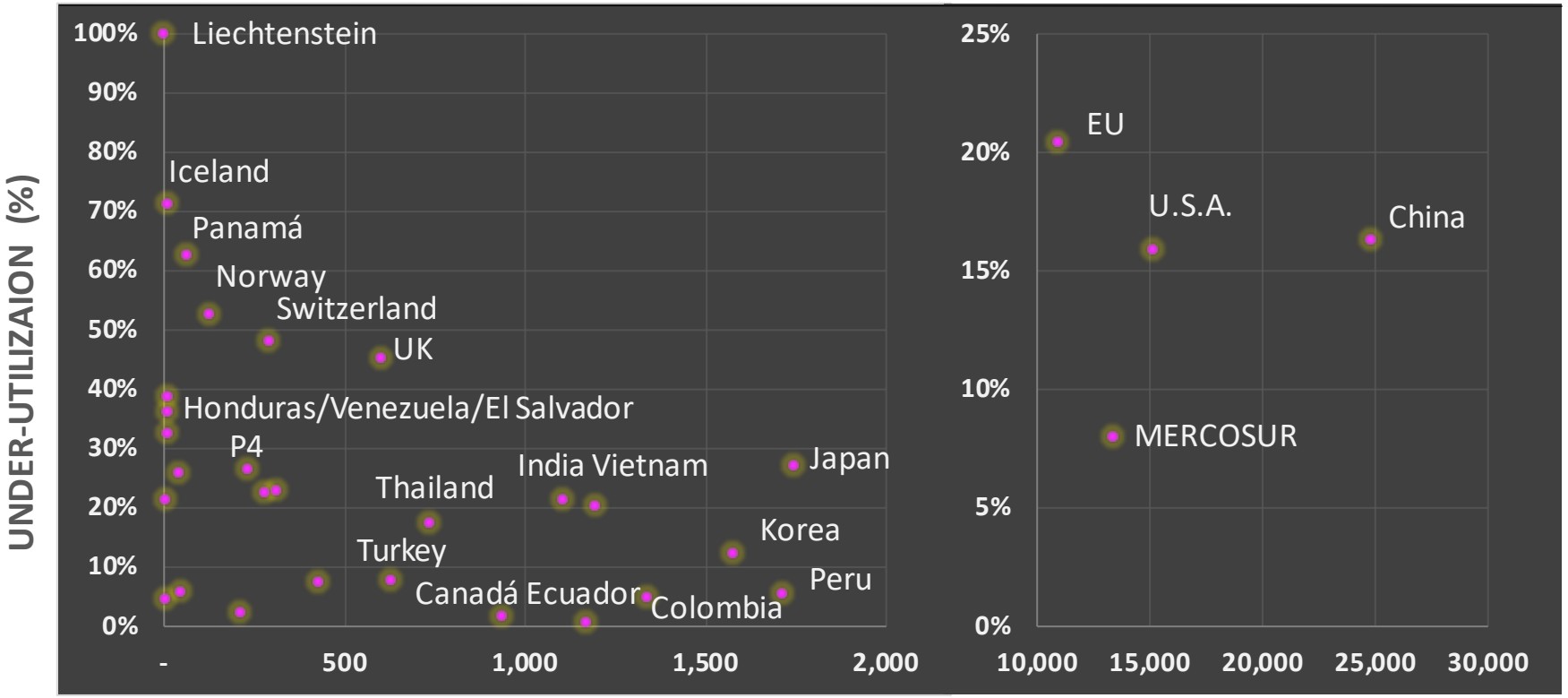


Source: Compilation based on Chile's Customs Data

2. Experience of Chile: calculating RTAs/PTAs utilization

A. Analysis using Databases Publicly Available

Imports – National Customs Service Data: under-utilization of RTAs/PTAs 2020 (vs Eligible import volume)

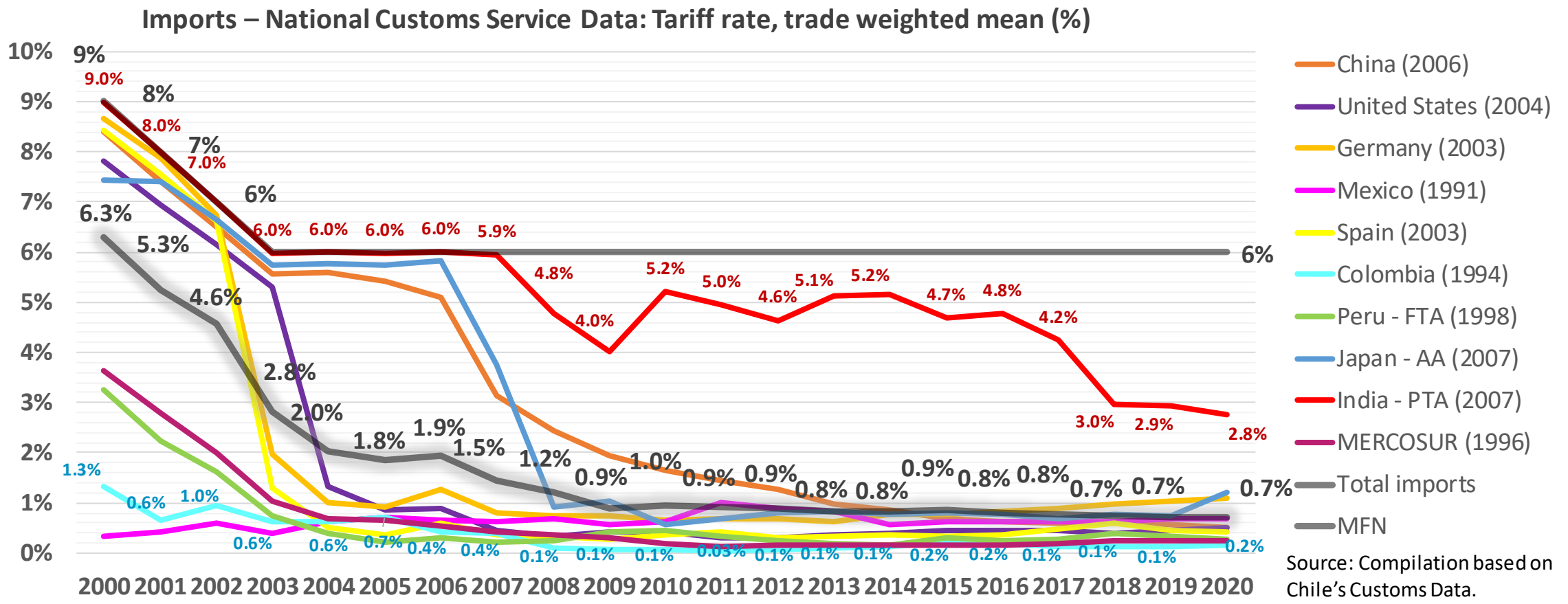


- **Eligible Imports (in MMUS$):** imports of products covered by tariff preferences (not excluded), with non-0% MFN
- **Under-utilization (%):** share of Eligible imports not using Trade Agreements

Source: Compilation based on Chile's Customs Data.

2. Experience of Chile: calculating RTAs/PTAs utilization

A. Analysis using Databases Publicly Available

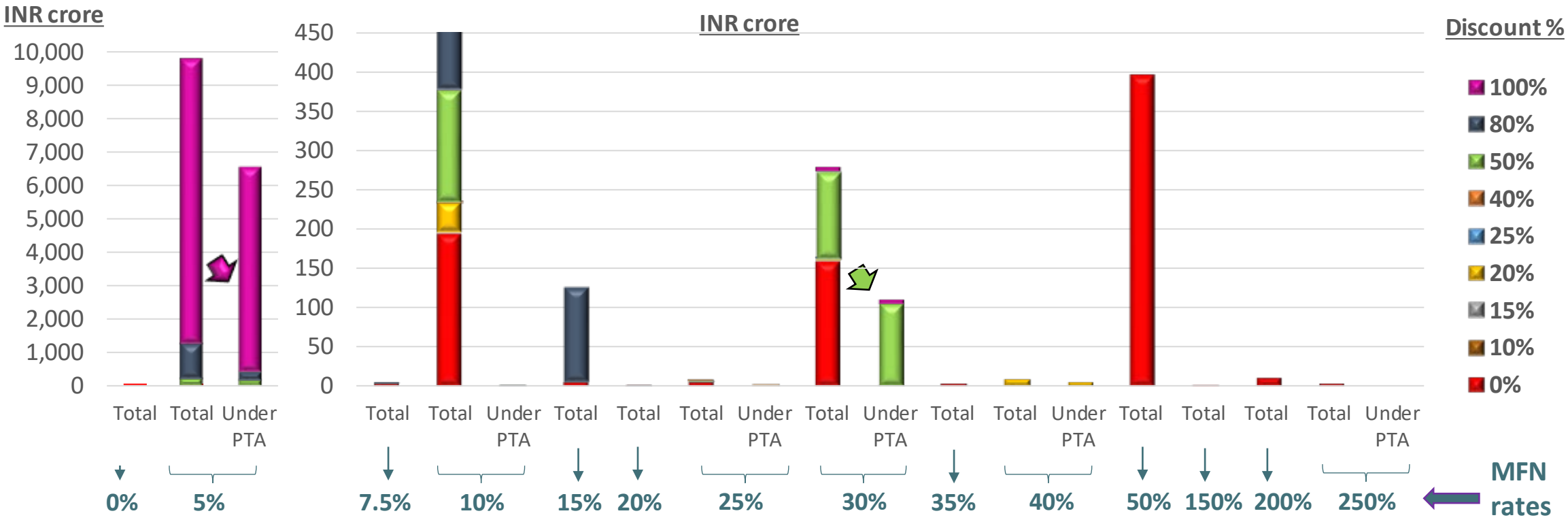


Source: Compilation based on Chile's Customs Data.

2. Experience of Chile: calculating RTAs/PTAs utilization

B. Analysis using Databases from Trade Partners

India: 2018 bilateral imports + bilateral imports using the Partial Trade Agreement



Source: Compilation based on India's Import Data 2018 (exchange in the Framework of the Joint Administration Committee of 2019).

2. Experience of Chile: calculating RTAs/PTAs utilization

B. Analysis using Databases from Trade Partners

Bilateral imports: EFTA, Canada and United States

	Imported from Chile	Year			
		2018	2019	2020	% 2020
Switzerland (MM CHF)	Total	542	744	791	100%
	MFN	526	731	772	98%
	Eligible & MFN>0%	**25**	**37**	**40**	**5.0%**
Norway (MM NOK)	Total	994	1,426	1,490	100%
	MFN	983	1,413	1,486	100%
	Eligible & MFN>0%	**5**	**166**	**176**	**12%**
Iceland (MM ISK)	Total	2,525	2,205	1,668	100%
	MFN	2,516	2,201	1,662	99.6%
	Eligible & MFN>0%	**0.4**	**6**	**3**	**0.2%**
Canada (MM USD)	Total	1,396	1,233	1,207	100%
	MFN	1,115	965	954	79%
	Eligible & MFN>0%	**36**	**39**	**32**	**2.6%**

Import Program	Imports 2020 (million US$)	% year 2020	Imports 2021 (million US$)	% year 2021
FTA Chile - U.S.	**5,430**	**55%**	**9,229**	**63%**
Civil Aircraft Programme	**24**	**0.2%**	**7.3**	**0.05%**
No program	**4,384**	**45%**	**5,456**	**37%**
MFN rate 0%	4,228	43%	5,197	35%
Other	**156**	**1.6%**	**258**	**1.8%**
Total	**9,839**	100%	**14,691**	**100%**

Under-utilization rate (%)

- Switzerland (2020): 69%
- Norway (2020): 99.997%
- Iceland (2020): 35%
- Canada (2020): 19%
- U.S.A. (2021): 2.7%

Source: Compilation based on India's Import Data from EFTA countries, Canada, and the USITC Trade Database.

3. Conclusions

- The National Customs Service of Chile provides periodically relevant import statistics on the utilization of Trade Agreements. Then, SUBREI has fostered the exchange of relevant import data with Trade Partners to analyze the utilization of FTAs by exporters.
- MFN rate 6% for almost every product in Chile ⇨ the import trade-weighted average rate has been a direct indicator of the effectiveness of FTAs ⇨ Currently less than 1%.
- There is a need to standardize and formalize the exchange of trade data (including the provision of data to IDB). Utilization FTA utilization data analysis is becoming more relevant.
- Current initiatives on FTA utilization Investigations in the framework of the Pacific Alliance. The objective is analyzing the benefits from cumulative origin provision and comparing trade behavior (and the utilization of Trade Agreements) vs rules of origin for one product subject to RoO with different complexity levels.

3. Conclusions

- **Is also important to monitor the utilization of overlapping Agreements in total imports from a country, with the same tariff preference (and perhaps different RoO).**
- **Under-utilization of RTAs: traders in Chile tend to use Trade Agreements mainly to avoid import tariffs, however, the concession of a tariff reduction (other than 0%) are not as relevant.**
- **FTA utilization statistics give us SIGNS of the reasons to not claim tariff preferences:**
  - Under-utilization of FTAs concentration in agro-industrial/industrial goods,
  - Low MFN rates for industrial goods discourage the utilization of FTAs,
  - Non-compliance of a 'totally obtained' Rule of Origin (for agricultural/fisheries sectors) – not as relevant as the under-utilization of the agro-industrial/industrial sector in the case of Chile,
  - Unknowledge of FTA benefits.
- **A next step is focusing efforts on industries which the lowest FTA utilization rates and provide utilization-data support for RoO studies.**

Thank you!