What drives the utilization of trade preferences ?
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Rules of Origin (RoO) as drivers of Utilization Rates (URs): Facts, myths, and work ahead

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1st FACT
Product-Specific Rules of Origin (PSRO) drive URs

Stringency or leniency of PSROs drives URs

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

Lesson learned and caveat

Stringency / leniency of a given PSRO has to be measured against manufacturing requirements rather than codified based on the drafting of PSROs

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2nd FACT
RoO administrative requirements are drivers of URs

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

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

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

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Challenges

- Low or high URs are like the result of a medical test, they need to be read by professionals to identify the correct diagnosis and their link to RoO taking into account sectors, firms and markets involved.

  → No magic solution.

- Link between URs and RoO offers a merciless picture of the use of a PTA.

  → Denial mode: Governments and trade officials are wary of recognizing such link.

- Research and literature on RoO have so far largely focused estimating trade-distorting effects of RoO using coding and regressions but paid scarce attention to how RoO operate in the real world.

  → New research should be actionable, to be used by governments seeking to cooperate on RoO to facilitate trade (Hoekman and Inama, 2018)

- URs are a public good that should be made widely available and accessible

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Work ahead

- **UNCTAD website of utilization rates** of trade preferences granted by QUAD countries available at:
  - https://inf-dmz-gsp-frontend-uat.azurewebsites.net/home

- **UNCTAD-EUI platform of experts**, researchers, practitioners, government officials and the private sector to discuss developments in the area of RoO and URs on an annual basis (June 2019, February 2020, October 2021)
  - Rules of Origin | Interview Series: https://globalgovernanceprogramme.eui.eu/rules-of-origin-interview-series/
  - Trade Facilitation and Rules of Origin: https://globalgovernanceprogramme.eui.eu/trade-facilitation-and-rules-of-origin/

- Ongoing cooperation with researchers from the **Asian Development Bank** on studying RoO and URs in the Asian region and especially mega-regionals (CP-TPP and RCEP).
  - Crivelli, P. and S. Inama. 2021. Making RCEP Successful Through Business-friendly Rules of Origin. Asian Development Blog. https://blogs.adb.org/blog/making-rcep-successful-through-business-friendly-rules-origin.

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Additional resources

- **UNCTAD studies 2021:**
  - "Getting to better rules of origin for LDCs using utilization rates - from the WTO Ministerial decision in Hong Kong (2005) to Bali (2013), Nairobi (2015) and beyond", Geneva. UNCTAD/ALDC/2019/3, eISBN: 978-92-1-005550-5
  - "Compendium of technical notes prepared for the LDC WTO group on preferential rules of origin" UNCTAD/ALDC/2020/6

- **UNCTAD-COMESA study 2021:** utilization rates of African RECs (forthcoming)

- **Ghetti, PP. and S. Inama, 2020**. The Real Cost of Rules of Origin: A Business Perspective to Discipline Rules of Origin in a Post COVID-19 Scenario, *Global Trade and Customs Journal*, Vol. 15, Issue 10, pp. 479-486, https://kluwerlawonline.com/journalarticle/Global+Trade+and+Customs+Journal/15.10/GTCJ2020086

- **Crivelli, P. and S. Inama. 2021**. "Improving market for LDCs: The impact of the EU Reform of Rules of Origin on Utilization Rates and Trade Flows under the Everything But Arms Initiative (EBA)", *EUI RSC*, Forthcoming. (preliminary results: https://www.osservatorio-economie-emergenti-torino.it/images/slides_and_videos/aissec_2020/Crivelli.pdf)

- **Crivelli, P., Inama, S., and J. Kasteng. 2021**. "Using utilization rates to identify rules of origin reforms: the case of EU free trade area agreements", *EUI RSC*, 2021/21, Global Governance Programme-437. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3821597

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Thank you for your attention

"Mazzarello - geometrie del dare, nuovo futuro" is the work of Maurizio Cancelli.
Its architectural perspective emphasizes the interactions of governments, societies and economies from around the globe under the United Nations Framework. This collaboration highlights the earth, its resources and potentials, and fosters a recognition of local communities and their right to exist in their places of origin, with their own distinction and diversity. Maurizio Cancelli started his artistic research on the right to live in one's place of birth more than thirty years ago. His work is inspired by the mountainous terrain surrounding the village of Cancelli in the heart of Umbria, Italy.

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