



What drives the utilization of trade preferences? *a WTO Contribution*

Darlan F. MARTÍ

Secretary of the Committee on Rules of Origin,
Market Access Division (WTO)

Thomas VERBEET

Statistician, Economic Research and Statistics
Division (WTO)

On this presentation



1. Work of the WTO Committee on Rules of Origin on the *Utilization* of trade preferences

2. Methodology: “utilization rates” VS “underutilization rates”

3. Some lessons from the work conducted so far

4. Contribution that the WTO can make to this debate

The concept of “preference utilization” in the work of the WTO Committee on Rules of Origin



2005 Hong Kong Ministerial Declaration

- Rules of origin applied to LDCs must be simple and transparent to facilitate exports from LDCs

2013 Bali Ministerial Decision (WT/L/917)

- First WTO legal instrument that deals with the design of preferential rules of origin. It requires the Committee on Rules of Origin (CRO) to monitor and review developments in this area

2015 Nairobi Ministerial Decision (WT/L/917/Add.1)

- Builds on the previous Decision and contains provisions related to the design of rules origin and documentary requirements.
- WTO Secretariat to calculate utilization rates of LDC preferences

“Utilization rates” can be used as a tool or a marker to assess the effectiveness of origin requirements in enabling preferential market access.

Methodology: “utilization rates” VS “underutilization rates”



“Utilization rates” represent the proportion of trade: 1. which is eligible for a trade preference and 2. which receives preferential treatment in practice.

$$\text{Utilization (\%)} = \frac{\text{Imports receiving preferences}}{\text{Imports eligible for preferences}} * 100$$

Limitation: Utilization rates are calculated for preferential trade flows under a specific scheme: if there are multiple preferences available, it can be misleading

Imports of vanilla from Madagascar (HS 0905.10)

	Total trade eligible for Preferences, in US\$				Utilization rate		Under utilization
	Using the LDC-PTA	Using another preference	Paying MFN duties	Total	(LDC-PTA)	(Other)	
EU	12,926,048	330,617,472	6,336,593	349,880,128	4%	94%	2%
China	41,416	-	458,963	500,379	8%	0%	92%

Source: WTO Integrated Database, 2019.

“Underutilization rates” show how much trade is paying Most Favored Nation (MFN) duties *despite* being eligible for preferences under any scheme.

$$\text{UNDERutilization(\%)} = \frac{\text{Imports eligible for pref., but paying MFN}}{\text{Imports eligible for preferences}} * 100$$

Work conducted by the CRO and lessons learnt so far



Secretariat notes : [G/RO/W/168/Rev.1](#); [G/RO/W/179](#); [G/RO/W/185](#); [G/RO/W/187/Rev.1](#); [G/RO/W/203](#) and [G/RO/W/204](#)

Main Observations:

- Underutilization is spread and varies across sectors, preferential schemes and LDCs
- Underutilization is high in sectors that are subject to the “wholly obtained criteria” (such as Agricultural products)
- Volatility from one year to the other
- Landlocked LDCs seem to have greater challenges utilizing trade preferences

Origin criteria is not the only factor that impact importers' ability to utilize trade preferences

- Proof of origin
- Direct transportation requirements
- Training / Compliance costs?
- Preferential margins?
- Value of Consignments?
- Business awareness?
- Firm size?
- Business Decisions? Risks?

Possible areas of contribution for the WTO



Promote the concept of "preference utilization rate" as a policy tool

Assist interested governments in designing projects to examine the utilization of preferential agreements

Offer standardized calculation methods to make the national analyses more comparable

Act as a depository for preferential tariffs / import statistics to **facilitate access to data**

Act as a depository for preferential rules of origin and origin requirements

Origin Facilitator

<https://findrulesoforigin.org>

Conduct research for Members and inform their discussions

Collaborate with other institutions working on relevant issues

Offer a forum for experience sharing and the identification of trade facilitating practices (WTO Committees)

Data available at the WTO on the basis of notifications



Tariff and import data notifications summarized in Modalities and Operation of the Integrated Database (IDB), [G/MA/367](#).

Members shall notify applied MFN tariffs and annual import statistics, and are encouraged to notify **preferential tariffs** and **preferential import** statistics.

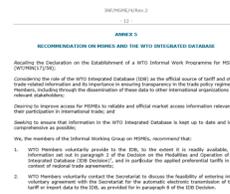
Members that notified tariff & import datasets by duty treatment.*

[G/MA/367](#)

[WT/L/671](#)

[WT/L/806](#)

[INF/MSME/4/Rev.2](#)



Tariff code	line	Suffix	Partner code	Duty Regime	Value	Quantity	Quantity unit
0210.11.39			AUS	MFN	20	30	KG
0210.11.39			AUS	FTA1	80	170	KG
0210.11.39			BRA	MFN	200	400	KG
0210.11.39			CHN	MFN	300	600	KG
0210.11.39			MLI	LDC	50	100	KG

PTA + RTA (GSP, FTA)

European Union
Iceland
Japan
Korea, Republic of
Norway
Switzerland
Chinese Taipei
Turkey
USA

RTA (FTA)

Guyana
Madagascar
Maldives
Mauritius
Nicaragua

PTA (LDC)

China
India
Thailand

*notification of at least one year since 2015

How to access data on preference utilization



Currently access to utilization of non-reciprocal preferential duty schemes is granted, based on the PTA Transparency Mechanism (WT/L/806).

PTA database (public, aggregated data)
 -> <http://ptadb.wto.org>

WORLD TRADE ORGANIZATION

Welcome to the Database.

This database contains information that are being implemented by WT outcome of the decision establishing context of this decision, PTAs are schemes. They are distinct from covered by the Transparency Mechanism database please consult the user guide.

	Total imports	Imports entering MFN duty-free	Imports eligible for PTA benefits	Imports entering under PTA benefits	Imports entering MFN dutiable	Imports entering via other pref.
All products	784,340	2.3%	766,196	90.4%	4.0%	5.6%
Agricultural goods	3,991	22.1%	3,110	57.9%	1.8%	40.3%
Animal products	-	-	-	-	-	-
Dairy products	158	100.0%	-	-	-	-
Fruits, vegetables, plants	174	18.8%	141	89.1%	10.9%	0.0%
Coffee, tea	470	-	470	57.2%	4.8%	38.0%
Cereals and preparations	1,369	34.7%	894	85.1%	0.8%	14.1%
Oilseeds, fats and oils	63	22.3%	49	100.0%	-	0.0%
Sugars and confectionery	704	0.2%	702	65.5%	0.7%	33.7%
Beverages and tobacco	875	2.5%	853	15.7%	0.7%	83.6%
Cotton	-	-	-	-	-	-
Other agricultural products	179	100.0%	-	-	-	-
Non-agricultural goods	780,349	2.2%	763,087	90.5%	4.0%	5.5%
Fish and fish products	3,980	100.0%	-	-	-	-
Minerals and metals	336	-	336	49.4%	6.6%	44.0%
Petroleum	-	-	-	-	-	-
Chemicals	2,263	62.0%	860	56.4%	12.1%	31.5%
Wood, paper, etc	1,231	-	1,231	17.8%	82.2%	0.0%
Textiles	47,291	21.0%	37,371	80.9%	13.7%	5.4%
Clothing	695,684	0.0%	695,455	92.1%	3.0%	4.8%
Leather, footwear, etc	23,887	0.1%	23,866	74.4%	10.2%	15.5%
Non-electrical machinery	156	-	156	70.0%	30.0%	0.0%
Electrical machinery	2,394	1.0%	2,370	6.7%	2.8%	90.5%
Transport equipment	1	-	1	100.0%	-	0.1%
Manufactures n.e.s.	3,126	53.9%	1,441	36.7%	59.6%	3.7%

Tariff Analysis Online (restricted, tariff line data for PTAs) -> <http://tao.wto.org>

APPLIED | Australia - 2021 | HS 2017 | All HS

Basic query
Extended query

Tariff Line Duties

Download Data | View in PDF | View Graph

Query name

Query description

Product: 6201 - Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-breakers, etc.

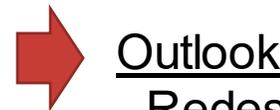
Tariff line: 62011100 --Of wool or fine animal hair (8)

Tariff line description with hierarchy

62011100 --Of wool or fine animal hair

Imports by Preferential Trade Agreement (PTA) from individual partners in US\$

Preferential tariff / Partner	Imports eligible for PTA benefits	Imports entering under PTA benefits	Imports entering MFN dutiable	Imports entering via other preferential agreements
Least Developed Countries (LDC) duties	79,859	49,482	27,625	2,751
Bangladesh	8,396	0	8,396	0
Cambodia	53,034	49,482	801	2,751
Madagascar	4,818	0	4,818	0
Myanmar	929	0	929	0
Sierra Leone	12,681	0	12,681	0



Outlook

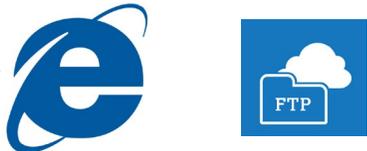
- Redesign user interface of Tariff Analysis Online
- Integration of data series on data portal <http://data.wto.org>

Facilitate data notifications to the WTO

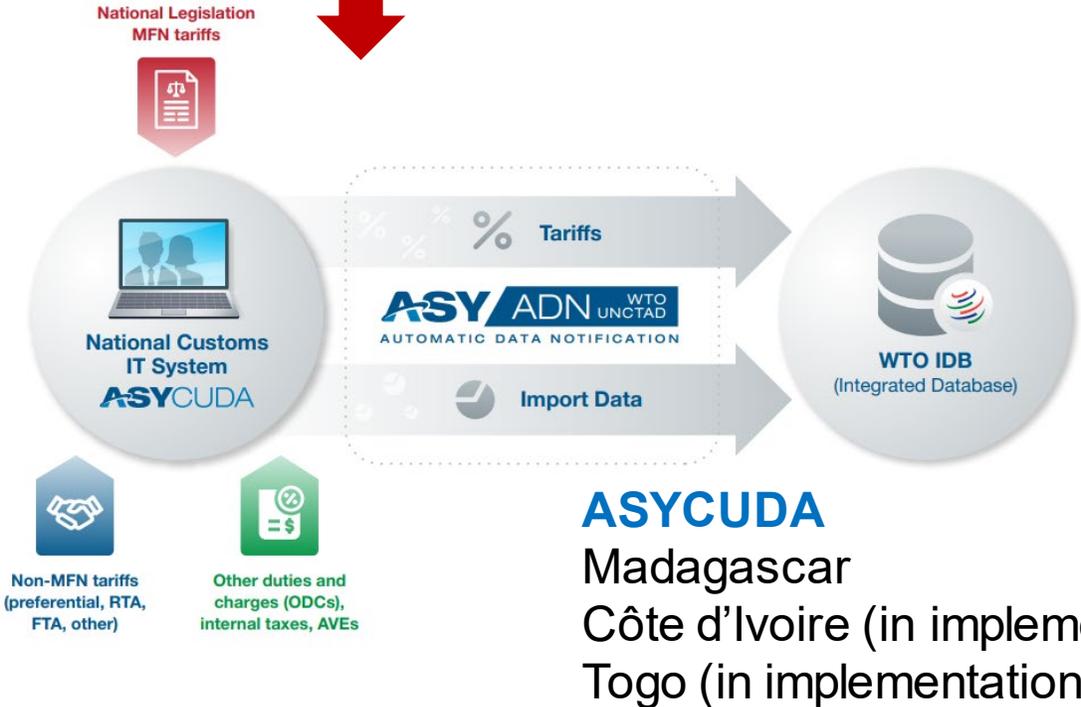


Transmission of Data

“To the extent it is technically viable, and with a view to automatically submitting the information, Members may voluntarily enter into an agreement with the Secretariat for the automatic electronic transmission of data at regular intervals or similar methods. [...]” IDB decision G/MA/367, paragraph 8



Direct set-up
 Canada
 Uruguay
 Others (advanced talks)



Thank you for your attention

Contacts of the team at the WTO:

Darlan F. MARTÍ

Secretary of the Committee on Rules of Origin,
Market Access Division

Simon NEUMUELLER

Economic Affairs Officer, Market Access Division

Nana RAMAZASHVILI

Economic Affairs Officer, Market Access Division

Thomas VERBEET

Statistician, Economic Research and Statistics Division