

# RTA Utilization

What we know and how to improve

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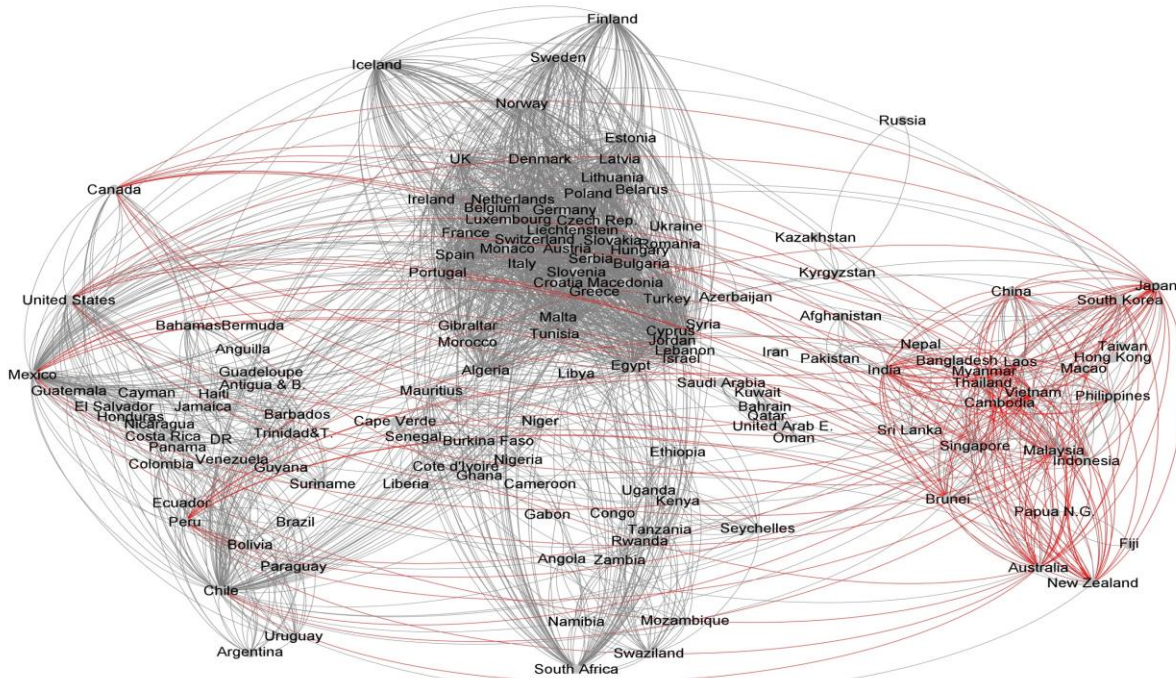
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- Why are preferences not used?
- What can be done?
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# What is the Problem?

- RTA proliferation has introduced opportunities for duty free access.
- Research on the impact of RTAs finds a positive impact on trade.
- In general, little is known about preference utilization – Which firms/sectors/products actually use preferences?

Global RTA “Spaghetti Bowl”



# Can we measure utilization?

- The biggest challenge is access to data
  - Analysis requires statistics by regime applied (few countries make these data public)
  - Firm- or transaction-level data are more useful
  - Sensitivities due to policy and confidentiality
  - USA, EU, Canada, Australia, Korea publish data to some degree.
- Other sources can give an idea: Surveys and CoO data
  - Indirect measurements give less precise indicators
- Minor methodological issues make statistics difficult to compare in existing studies
  - Treatment of trade with no margin of preference (MFN is 0 or products excluded from preferences)

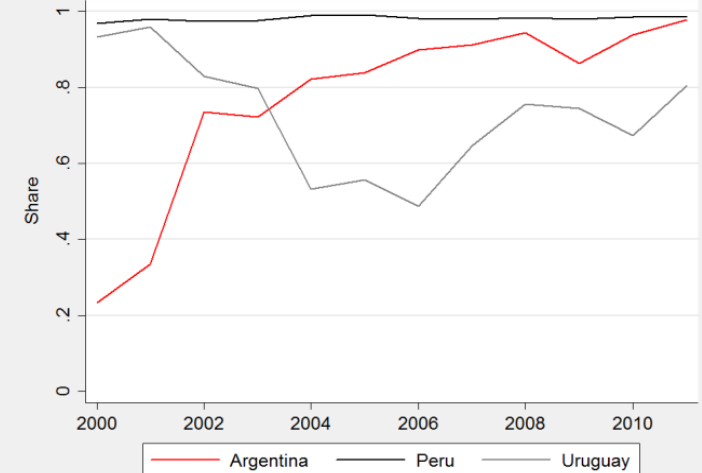
# What do the data say?

- Existing literature finds utilization rates that vary from 3% to 90%, in different agreements at different times.
- In the USA, GSP utilization estimated at around 60%. Utilization by ACP countries in EU around 50%.
- In LAC, intra-regional preference utilization is high, where data are available.
  - IDB Firm surveys indicate >80% of exporters use preferences, often under multiple agreements
  - Some countries show near-100% preference utilization.
- In Asia, utilization has increased over the years.
  - Australia shows FTA utilization in imports >80%
  - 28% of firms surveyed by the ADB were using preferences.
  - ASEAN utilization has increased from around 3% to over 70% in some countries in 10 years.

# The Case of Colombia

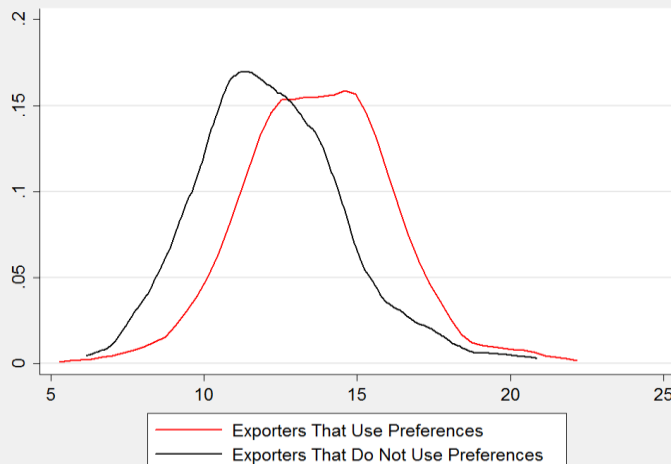
- Transaction-level data for Colombia and imports from Peru, Argentina, and Uruguay
- Utilization increased as margin of preference grew
- Preference-using firms larger on average than non-utilizing firms

PREFERENCE UTILIZATION  
2000-2011



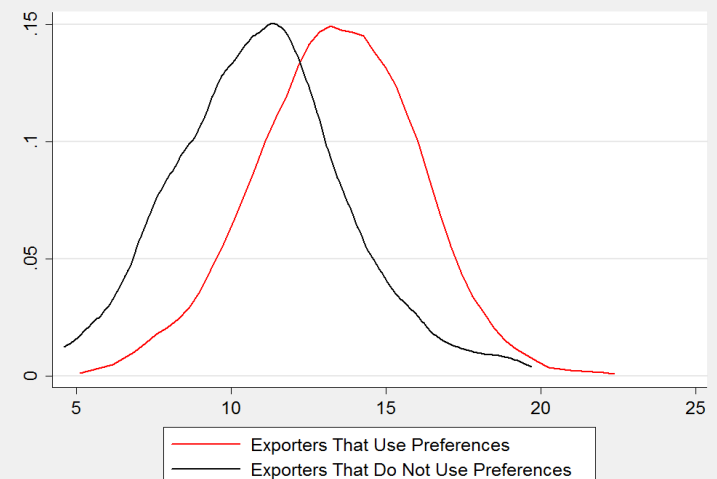
ARGENTINA

Exporters' Size as Proxied by Total Exports, 2006



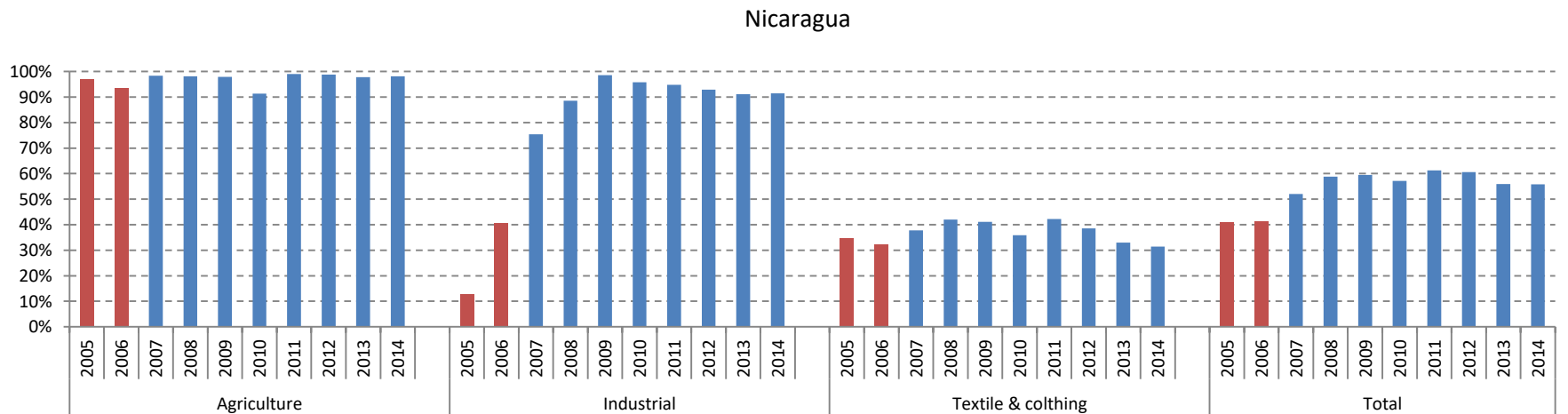
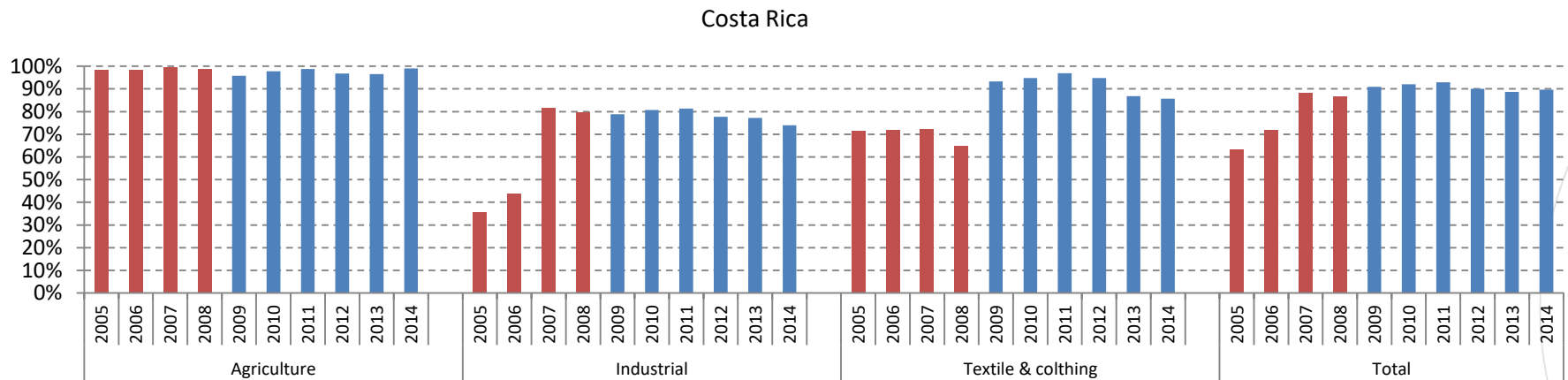
PERU

Exporters' Size as Proxied by Total Exports, 2006



# The case of the DR-CAFTA

- Utilization of preferences in the US market by exports from Central America under the DR-CAFTA are high and generally increasing.
- Utilization lowest in textiles and clothing, where RoO are strictest.



# Why aren't preferences used?

- Ignorance of preference availability
  - Evidence indicates this is currently a greater problem in Asia than in LAC
- Low margin of preference (<5-10%)
  - Due either to low MFN rates or partial tariff reduction
- Rules of Origin
  - Rules can be difficult or costly to comply with
  - Administrative costs and uncertainty
- Multiplicity of agreements with different rules
  - Absence of adequate cumulation provisions
  - Administrative and supply-chain challenges
- Low utilization is not necessarily bad: indicates firms may be finding a more efficient trade regime.



# Preference utilization by SME's

- Difficult to measure directly without detailed data
- Analysis of data for Colombia show higher usage by larger firms (both in total sales and number of employees).
- ADB Surveys indicate that MNC's report more difficulty with RoO, which is consistent with more complex supply chains.
  - Often suppliers of MNCs are SMEs.

# Challenges

- Communication, capacity building, and promotion of RTA utilization
  - Support SME's in documenting origin of materials supplied to MNC's to boost competitiveness.
- Online access to information on RoO and preference procedures
- Better data for better analysis and identification of bottlenecks
  - WCO could promote publication of the necessary data.

## Information System on Integration and Trade



### STATISTICS AND INDICATORS

- [Bilateral Trade](#) >
- [Trade Trend Estimates](#) >
- [Detailed Trade Statistics](#) >
- [Indicators](#) >
- [Country Profile](#) >



### MARKET ACCESS

- [Most Favored Nation Tariffs](#) >
- [Preferential Market Access](#) >
- [Rules of Origin](#) >
- [Standards](#) >
- [Rules of Origin Compliance](#) >



### LEGAL FRAMEWORK

- [Trade Agreements](#) >
- [Double Taxation Agreements](#) >
- [Indexed FTA Texts](#) >



# IADB INTrade RoO Database

- Agreement Documents (> 50 agreements)
- Indexed RoO and Customs Procedures Texts
- PSRO Data (>120 sets of PSRO)
  - Rule Texts by HS subheading
  - Detailed Codification enabling several interpretation and application tools (>1 million rules)
    - Basic and Enhanced text query
    - Guide
    - Calculator
  - HS Revision tool (coming soon)

# Easy Access to the Rule Texts

## Results

EXPORT DATA


Search

HS Version ▲	Agreement ⇅	Position ⇅	Official Text ⇅
HS.2002	USAISR	850110 - Motors of an output not exceeding 375 W	This Agreement shall apply to any article if the sum of (i) the cost or value of the materials produced in the exporting Party, plus (ii) the direct costs of processing operations performed in the exporting Party is not less than 35 percent of the appraised value of the article at the time it is entered into the other Party.
HS.2002	CAFTA-RD	850110 - Motors of an output not exceeding 375 W	A change to subheading 8501.10 from any other heading, except from stators or rotors of heading 85.03; or A change to subheading 8501.10 from stators or rotors of heading 85.03, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: (a) 35 percent when the build-up method is used, or (b) 45 percent when the build-down method is used.
HS.2002	MCCA-RD (CAFTA)	850110 - Motors of an output not exceeding 375 W	A change to this heading from any other heading.
HS.2002	NAFTA	850110 - Motors of an output not exceeding 375 W	A change to heading 85.01 from any other heading, except from tariff item 8503.00.aa; or A change to heading 85.01 from tariff item 8503.00.aa, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: (a) 60 percent where the transaction value method is used, or (b) 50 percent where the net cost method is used.
HS.2002	USAAUS	850110 - Motors of an output not exceeding 375 W	A change to subheading 8501.10 from any other heading, except from stators and rotors of heading 85.03; or A change to subheading 8501.10 from stators and rotors of heading 85.03, whether or not there is also a change from any other heading, provided there is a regional value content of not less than 35 percent based on the build-up method or 45 percent based on the build-down method.
HS.2002	USABAH	850110 - Motors of an output not exceeding 375 W	The sum of (i) the value of the materials produced in one or both of the Parties, plus (ii) the direct costs of processing operations performed in one or both of the Parties must be not less than 35 percent of the appraised value of the good at the time it is entered into a Party
HS.2002	USACOL	850110 - Motors of an output not exceeding 375 W	A change to subheading 8501.10 from any other heading, except from stators or rotors of heading 85.03; or A change to subheading 8501.10 from stators or rotors of heading 85.03, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: (a) 35 percent when the build-up method is used, or (b) 45 percent when the build-down method is used.
HS.2002	USAGOA	850110 - Motors	The duty-free treatment provided under this subchapter shall apply to any eligible article which is the





Consult the Rule of Origin of another product:

By position:   Execute

Choose a different agreement:

 Change Countries

Rules of origin to export from Colombia to United States  
Included [Agreements](#): USACOL  
Tariff positions included: 21.06.90

Subheading: [21.06.90](#) Other

Agreement and Origin Requirement	Non-permitted <a href="#">Non-Originating Inputs</a>	<a href="#">Working or Processing Requiren</a>	<a href="#">Flexibilities</a>
<p>Agreement: <a href="#">USACOL(USA-Colombia), HS.2002</a></p> <p><a href="#">*21.06.90</a> *mixtures of juices fortified with vitamins or minerals of subheading 2106.90 <b>Alternative: 1 Rule:</b> A change to mixtures of juices fortified with vitamins or minerals of subheading 2106.90: (A) from any other chapter, except from heading 08.05 or 20.09 or from mixtures of juices of subheading 2202.90; or (B) . (<a href="#">Calculator</a>)</p>	<p><a href="#">08.05 Citrus fruit, fresh or dried</a> <a href="#">20.09 Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter</a> <a href="#">21 MISCELLANEOUS EDIBLE PREPARATIONS</a> <a href="#">*22.02.90 mixtures of juices of subheading 2202.90;</a></p>		<p><b>Value tolerance:</b> LIMITED Application: 10% of the value. See guide.</p>
<p>Agreement: <a href="#">USACOL(USA-Colombia), HS.2002</a></p> <p><a href="#">*21.06.90</a> *mixtures of juices fortified with vitamins or minerals of subheading 2106.90 <b>Alternative: 2 Rule:</b> A change to mixtures of juices fortified with vitamins or minerals of subheading 2106.90: (A) ...; or (B) from any other subheading within chapter 21, heading 20.09 or from mixtures of juices of subheading 2202.90, whether or not there is also a change from any other chapter, provided that a single juice ingredient, or juice ingredients from one non-party to the Agreement, constitute in single strength form no more than 60 percent by volume of the good (<a href="#">Calculator</a>)</p>	<p><a href="#">21.06.90 Other</a></p>	<p>[provided that a single juice ingredient, or juice ingredients from a single non-Party, constitute in single strength form no more than 60 percent by volume of the good.]</p>	<p><b>Value tolerance:</b> LIMITED Application: 10% of the value. See guide.</p>
<p>Agreement: <a href="#">USACOL(USA-Colombia), HS.2002</a></p> <p><a href="#">*21.06.90</a> *a compound alcoholic preparation of subheading 2106.90 <b>Rule:</b> A change to compound alcoholic preparations of subheading 2106.90 from any other subheading except from heading 22.03 through 22.09 (<a href="#">Calculator</a>)</p>	<p><a href="#">21.06.90 Other</a> <a href="#">22.03 Beer made from malt</a> <a href="#">22.04 Wine of fresh grapes, including fortified wines; grape must other than that of heading No 2009</a> <a href="#">22.05 Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances</a> <a href="#">22.06 Other fermented beverages (for example, cider, perry, mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included</a> <a href="#">22.07 Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol or higher; ethyl alcohol and other spirits, denatured, of any strength</a> <a href="#">22.08 Undenatured ethyl alcohol of an alcoholic</a></p>		<p><b>Value tolerance:</b> LIMITED Application: 10% of the value. See guide.</p>

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# Other Tools

- RoO Guide
  - A textual explanation of the implications of the PSRO, identifying inputs that may not be used and explaining cumulation and *de minimis* provisions.
- RoO Calculator
  - Users may enter the inputs used (by HS Code) and their origin, and the system will evaluate whether the origin requirements are satisfied.
- HS Rectification (*coming soon*)
  - Reports for governments on which rules are affected by HS revisions, and suggesting solutions.

**THANK YOU!**

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