Strategies to Enhance Preference Utilization

Submitted by: Inter-American Development Bank
Strategies to Enhance Preference Utilization

Paolo Giordano
Principal Economist
Integration and Trade Sector
APEC Senior Official Dialogue on FTA's/RTA's
25 August 2016 - Lima, Peru

Index

- What is the problem?
- Can we actually measure preference utilization?
- Why are preferences not used?
- What can be done?
What is the Problem?

Global RTA “Spaghetti Bowl”

- Over 160 separate agreements in force
- ~50% world trade occurs with an RTA

What is the Problem?

- **Opportunity** - RTA are a major vehicle for duty free access
- **Evidence** - positive impact on trade
- **Knowledge gap** - little is known about preference utilization (firms/markets/products)
Can we actually measure utilization?

• Access to data is a major challenge
  ✓ Statistics by regime applied (few countries make data public)
  ✓ Firm- or transaction-level data are more useful
  ✓ Sensitivity due to policy and confidentiality
  ✓ USA, EU, Canada, Australia, Korea publish data to some degree

• Alternative sources: Surveys and CoO data
  ✓ Indirect measurements give less precise indicators

• Methodological issues make studies difficult to compare
  ✓ 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.
Overall Numbers for the USA

- Less than a third of total USA imports enter under preferences
- Only half of total imports from FTA partners enter under preferences

United States Preferential Imports

Source: IDB calculations based on USITC Dataweb

The case of the DR-CAFTA

- DR-CAFTA preference utilization in the US is high
- Utilization is the lowest in textiles and clothing (strictest RoO)
The Case of Colombia

- CO transaction-level data (imports from PE, AR, and UR)
- Utilization increased as margin of preference grew
- Preference-using firms larger than non-utilizing firms

Why aren’t preferences used?

- Lack of knowledge about preference availability
  - Surveys find a greater gap in Asia than in LAC, perhaps due to a shorter history of preferential trade.
- 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 cumulation provisions
  - Administrative and supply-chain challenges
- Low utilization is not necessarily bad: 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, which need to provide supporting documentation of originating goods.

What can be done?

• Communication, capacity building, and promotion of RTA utilization through TPOs and other agencies
  – Identify firms with potential to use preferences and provide technical support
  – Support SME’s in documenting origin of materials supplied to MNC’s to boost competitiveness.

• Online access to information on RoO and preference utilization procedures

• Better data for analysis of non-utilization
  – APEC may promote publication of data in partnership with regional development bodies
THANK YOU

Paolo Giordano
Principal Economist
Integration and Trade Sector
paolog@iadb.org