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Building Inclusive Rules of Origin in the 21st Century

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Policy Brief

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A policy brief is a concise summary of a particular issue, the policy options to address the issue, and some recommendations on the best options available. It is aimed at governments, policymakers, and others who are interested in formulating or influencing policy. This policy brief is one of a series of papers developed by the RTA Exchange that explore rules of origin.

This policy brief was prepared by Jeremy Harris (Economist and Integration and Trade Specialist with IDB) based on the RTA Exchange Dialogue on Rules of Origin held in Geneva on 21-22 November, 2016, and jointly organised by ICTSD and IDB. Contributors to this Dialogue included Christophe Bellmann, Liam Campling, Rafael Cornejo, Kim Elliott, Antoni Estevadeordal, Gaston Fernandez, Jeremy Harris, Stefano Inama, Anna Jerzewska, Robert Koopman, Ping Liu, Darlan Martí, Erlinda Medalla, Ricardo Meléndez-Ortiz, Miguel Rodriguez Mendoza, Eckart Neumann, Felipe Quintero, Brian Staples, and Gail Strickler, along with other participants. Important support in all aspects of the process was provided by Julia Muir and Marie Chamay.

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Contents

Abbreviations and Acronyms

ACP	African, Caribbean, and Pacific Group of States
AGOA	African Growth and Opportunity Act
ARO	Agreement on Rules of Origin
ASEAN	Association of Southeast Asian Nations
CETA	Canada-EU Comprehensive Economic and Trade Agreement
CFTA	Continental Free Trade Agreement
CRO	Committee on Rules of Origin
DFQF	duty-free quota-free
EGA	Environmental Goods Agreement
EU	European Union
FTA	free trade agreement
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
GVC	global value chain
HS	Harmonized System
ISO	International Organization for Standardization
ITA	Information Technology Agreement
LDC	least-developed country
MFN	most-favoured nation
NAFTA	North American Free Trade Agreement
PECS	Pan-European Cumulation System
RCEP	Regional Comprehensive Economic Partnership
RoO	rules of origin
RTA	regional trade agreement
SME	small and medium-sized enterprise
TCRO	Technical Committee on Rules of Origin
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
UNCTAD	United Nations Conference on Trade and Development
US	United States
WCO	World Customs Organization
WTO	World Trade Organization

Prologue

Revolutionary advances in information and communication technologies, data science, and transportation and logistics have created a comprehensive trade architecture that connects more countries around the globe than ever before. This architecture has created new opportunities for producers – especially small and medium-sized businesses – to trade across borders for the first time; it has allowed the poorest of countries to expand their exports to new markets and compete alongside larger more prosperous economies; it has also given consumers around the world access to more goods at cheaper prices. Most importantly though, it has allowed people around the world to participate in, and benefit from global trade.

At the same time international trade has become more complex as more and more countries enter into regional trade agreements (RTAs) that are wider in scope, deeper in their integration, and often more comprehensive than the multilateral system. Consequently, the World Trade Organization's (WTO) role as the center of global trade rule-making has diminished, and RTAs have started to play a much larger role. Nowadays RTAs are responsible for modernising trade rules and practices, enabling today's international production-sharing possibilities, and are the epicenter of developments in supply chains and the fragmentation of production.

But as RTAs proliferate more questions arise about the overlapping rules and regulations. How can we avoid the potential discriminatory effect on third parties? How can countries take advantage of preferential rules included in RTAs? And what role should RTAs play in the multilateral system?

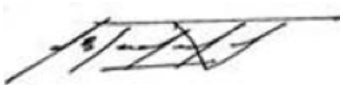
Jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the Inter-American Development Bank (IDB), the RTA Exchange works in the interest of sharing ideas, experiences to date and best practices to harvest innovation from RTAs and leverage lessons learned toward progress at the multilateral level. The RTA Exchange website (www.rtaexchange.org) provides an online forum dedicated to exchanging information – including research, news, data and analysis – and generating new ideas in order to answer the difficult questions about the future role of RTAs. As part of the initiative, ICTSD and the IDB are organising a series of Policy Dialogues on key RTA-related topics. The Policy Dialogues, informed by targeted research and analysis, are meant to facilitate in-depth substantive and systematic discussions among policymakers, private sector leaders, academics, and international organisations among others, on the possibilities for coherence-building between RTAs and the multilateral trade system.

This Policy Brief is the product of our first Policy Dialogue, held in Geneva, Switzerland, 21-22 November 2016 on the topic of Inclusive Rules of Origin (RoO). During the Dialogue participants sought to assess the role of RoO in the international trading system and identify the bottlenecks that arise in their application, especially where these impact trade

of developing countries. The important questions revolved around how to harmonise RoO, and how they can best be reformed to truly benefit all countries – including least-developed countries (LDCs) – and what additional, complementary issues need to be addressed to make these efforts effective.

Research done by the IDB shows that countries that participate in global supply chains tend to source on average 15 percent more of their foreign value-added from members of the same RTA than from non-members; a phenomenon partly due to RoO. Although being a member of an RTA does not necessarily impede the development of supply chains with non-member countries, empirical evidence suggests that RoO have significant implications in the way firms choose the location in which they fragment production. What's more the complexity and variety of RoO that exist today represents a challenge for many firms seeking to participate in production networks across various trade agreements.

To address these issues countries, along with the multilateral community, must consider ways to consolidate and harmonise rules of origin; explore new approaches to crafting RoO regimes; and continue to look forward and work together to come up with concrete steps towards simplified and harmonised RoO while fostering convergence and coherence-building between RTAs and the multilateral trade system.



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Executive Summary

This report provides an analysis and evaluation of rules of origin (RoO) in the context of regional trade agreements (RTAs) and the multilateral system. The number of bilateral and plurilateral trade agreements, and preferential trading schemes has increased dramatically over the past two decades. These agreements effectively enable today's international production-sharing possibilities and are at the centre of developments in supply chains and the fragmentation of value-addition. The rules of origin contained within RTAs therefore have significant implications in the way firms choose the locations in which they set up segments of their production. Consequently, strict RoO can result in economically sub-optimal functioning of value chains by disincentivising the use of cheaper parts and materials from third countries. Strict and diverse RoO also affect the ability of developing countries – especially the least-developed countries (LDCs) – to fully benefit from the enhanced market access granted through RTAs.

The RTA Exchange Dialogue on Rules of Origin therefore seeks to identify the role of RoO in the international trading system and identify the bottlenecks that arise in their application, especially where these can impact and suppress trade of developing countries. In this regard, the important questions revolve around how to harmonise RoO, how they can best be reformed to truly benefit all countries – including LDCs – and what additional, complementary issues need to be addressed to make these efforts effective.

To do so this report first looks at the various sectoral approaches to RoO. Preferential RoO have different roles in different sectors, and tend to be products of the political economy of each sector in the specific signatory countries. In some sectors like processed foods and fisheries RoO are extremely complex, whereas other sectors like primary products tend to have very straightforward RoO regimes. The report finds that RoO can be used to promote development, if the preferences are sufficient and their implementation is flexible and efficient. For example, unilateral preference programmes like the African Growth and Opportunity Act (AGOA) in the United States (US) or the General Preferential Tariff in Canada provide fairly liberal rules to LDCs with the objective of promoting employment in the simplest assembly operations. Countries that successfully take advantage of these opportunities can be "graduated" to programmes with stricter rules, and if the country is able to provide adequate governance and protection for the investment, it can create technology transfer and higher-wage employment.

Next the report examines different consolidation and harmonisation models in Europe, North America and Latin America. The fragmented and piecemeal nature of the vast network of RTAs calls for consolidation and harmonisation of the rules of origin, but how they operate in reality is another question. The report therefore examines models like the Pan-European Cumulation System (PECS), the North American Free Trade Agreement (NAFTA) and the Canada-Colombia free trade agreement (FTA) that offer product-specific extended cumulation and the participation of non-originating content. The report finds that

expanding cumulation and modernising/reforming administrative procedures can lower the costs of compliance with RoO and promote preference utilisation. Where these apply to developing countries, greater opportunities to use preferences can boost competitiveness and encourage foreign investment that creates backward linkages and greater productivity. How to design and implement these mechanisms, however, is still a challenge.

The report goes on to explore new approaches to simplification, harmonisation, and consolidation of RoO. To do so the report outlines the role multilateral organisations like the World Trade Organization (WTO) and the World Customs Organization (WCO) can play, as well as the important contributions needed from RTA administration committees and national customs authorities. The report suggests that the WTO could provide more guidance as to what cumulation models are clearly consistent with General Agreement on Tariffs and Trade (GATT) Article XXIV. This would eliminate the concern of countries seeking to lessen the restrictiveness of their rules through broader cumulation zones. The report also suggests that the WCO would be an appropriate forum for establishing a sort of "global uniform regulations" to reduce or eliminate where possible the uncertainty in the evaluation firms' origin information by customs administration. This could provide a mechanism for seeking standardisation of documentary evidence of preferential RoO compliance, and help guide both firms' preparation and customs' interpretation. Additionally the report recommends ways in which trade facilitation can better address preferential RoO, for example through integration into electronic single windows and authorised economic operator programmes.

At the regional level, coordination among RTAs to both identify best practices and to promote harmonisation of procedures and elements of documentation would significantly improve the functioning and benefits of RoO. Additionally, committees established to oversee the RoO should be more active in taking feedback from the private sector on ways to make origin compliance and documentation less burdensome and costly, addressing the issues listed here and others.

The report finishes by identifying issues needing further study. First, the ambiguity of the Article XXIV consistence of different models of expanded cumulation requires organised analysis by international trade law experts, and recommendations on technical approaches to expanded coverage of RoO in the Transparency Mechanism and the possibility of establishing a plurilateral agreement on RoO. A second area that merits further study is the development of International Organization for Standardization (ISO) standards on origin information management as a tool to help the private sector address the difficulties of RoO compliance. This would give firms obtaining certification under such standards greater certainty that their practices would be acceptable to customs. A third area that requires further study is rules of origin for services. Even if only for non-preferential statistical purposes, identifying the origin of services will become increasingly relevant, and merits careful analysis. Finally, the report recommends examining whether or not there is there a role for RoO in seeking to help moderate the environmental impact of global trade.

1. Introduction

Over the past few decades regional trade agreements (RTAs)[1] have proliferated alongside the multilateral (GATT/WTO) system. All these agreements have evolved through time and most now contain disciplines that are wider in scope, deeper in their integration nature, and significantly more sophisticated than the multilateral trading system. RTAs have also served as incubators and testing grounds for new global trade rules. As such, many of these agreements effectively enable today's international production-sharing possibilities and are at the centre of developments in supply chains and the fragmentation of value-addition.

According to the Inter-American Development Bank (IDB)[2], countries participating in global supply chains tend to source on average 15 percent more of their foreign value-added from members of the same RTA than from non-members – a phenomenon partly due to rules of origin (RoO). While being a member of a trade agreement does not necessarily impede the development of supply chains with non-member countries, empirical evidence suggests that rules of origin have significant implications on the way firms choose the locations in which they fragment production. Strict RoO might therefore result in economically sub-optimal functioning of value chains by disincentivising the use of cheaper parts and materials from third countries. The level of restrictiveness of RoO, in terms of the degree to which non-party materials may be used, merits analysis and calibration to the needs of all countries in each RTA.

A separate but related issue exists regarding the complexity of the origin criteria and of the documentary and procedural burden of compliance with the RoO. Origin requirements generally vary across products within a given RTA, and across RTAs for a given product. This variability can lead to confusion and error, adding uncertainty to decisions to invest and export, thereby potentially depressing both activities. There is therefore an argument for the simplification and harmonisation of RoO and expansion of cumulation across RTAs and Generalized System of Preference (GSP) schemes to reduce the associated costs faced by active and potential participants in international production networks.

Strict and diverse sets of RoO have traditionally affected the ability of developing countries, including middle income and the least-developed countries, to fully benefit from the enhanced market access granted through preferential schemes or negotiated under their RTAs. In the WTO, this issue has gained significant momentum with the Bali – and subsequently Nairobi – decisions.[3] As we move to the next WTO Ministerial Conference in 2017, this constitutes an area where several members have expressed interest in moving beyond the current "best-endeavour" language promoting harmonisation. In this regard, the important questions revolve around how to define harmonisation, how it can best be framed to truly benefit developing countries, and what additional, complementary issues need to be addressed to make these efforts effective.

At the same time some negotiations, notably in the context of mega-regional agreements such as the Trans-Pacific Partnership (TPP) or the EU-US Transatlantic Trade and Investment Partnership (TTIP), also could have provided an opportunity to

[1] RTA here refers to the use given to the acronym in the GATT/WTO to designate preferential trade arrangements, whether of bilateral, plurilateral, regional or cross-regional composition. In this sense, it encompasses free trade agreements (FTAs), as well as regional and cross-regional integration schemes of diverse depth, including customs unions.

[2] Estevadeordal, Antoni, Kati Suominen, and Juan Blyde. 2013. *Are Global Value Chains Really Global? Policies to Accelerate Countries' Access to International Production Networks*. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

[3] Decisions of WTO ministerial meetings.

address these issues. If this or something like it were done with a commitment to apply these improvements in their respective RTAs and GSP schemes with a mechanism allowing for expanded cumulation, this could result in major efficiency gains and will directly benefit poorer countries.

2. Recent Trends in RTAs

As the Uruguay Round was completed and put into force, the unwieldiness of the WTO mechanism and the limited incremental progress that it offers, along with changing patterns of production, led countries to invest in RTAs which are smaller, but faster to negotiate and can more quickly lead to substantial tariff preferences. RTAs can also offer a wider variety of disciplines, allowing for deeper integration and greater economic opportunities. Finally, RTAs can be prioritised with principal trading partners, where economic geography indicates the greatest potential benefits, to maximise short-term benefits.

With this set of advantages over the multilateral system, the number of RTAs globally in force grew rapidly from the 1990s through the 2000s, with 167 RTAs having entered into force between 1995 and 2009 (just over 11 per year). In the 2010s, 74 RTAs have entered into force between 2010 and the present (over 12 per year), showing that there has been no let up in the negotiations.[4]

At this point, most countries have consolidated RTAs with their primary trading partners, and some countries have developed extensive networks of agreements providing preferential access to countries accounting for most of global GDP. Also, the confluence of policy and technological factors has enabled increasing fragmentation of production as firms leveraged gains from specialisation to reduce costs and increase competitiveness. This trend has revealed the limitations of the piecemeal approach of RTAs where each bilateral relationship had its own rules and procedures.

The combined incentives of extended production networks, completed networks of bilateral RTAs, and the challenges of operating across multiple agreements with differing and uncoordinated rules, have led countries to seek more encompassing agreements. These mega-regional agreements are designed to superimpose a single set of rules on a broad existing network of RTAs.

The main mega-regionals to consider include the TPP, linking the USA with ten countries on the Pacific Rim; the TTIP agreement between the USA and the EU; the Regional Comprehensive Economic Partnership (RCEP) linking ASEAN with six other countries including China, Australia, Japan, and Korea; and the Continental Free Trade Agreement (CFTA) bringing most of Africa under one agreement. While recent political developments raise doubts about the eventual success of some of these projects, they all serve as maps of what countries are capable of negotiating, and the modern approaches to the various disciplines contained within the agreements, including rules of origin.

One of the primary motivations for the mega-regionals is to enable cumulation of origin among all of the members of the agreement in question. In an important sense, this accomplishes the harmonisation and consolidation objectives mentioned above. But the mega-regionals only provide this outcome for those countries that are signatories to the agreements and are not systemic panaceas by themselves. With few exceptions, the mega-regionals under negotiation do not include large numbers of developing countries, thus excluding them from the benefits to be had from the consolidation and harmonisation. The TPP includes several emerging economies but no LDCs, and of course the TTIP is a bilateral between developed countries. Within the

[4] Based on agreements included in the WTO RTA database, available at http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx

RCEP, several ASEAN LDCs are included, along with significant developed economies, though not the United States or Europe. While most CFTA countries are LDCs, there are no large developed countries included.[5]

Thus, even with these agreements in place, most LDCs still rely on unilateral preference programmes for duty-free access to developed country markets, and increasingly to emerging markets as well. However, these programmes frequently have a finite time horizon,[6] and are not developed through negotiation between grantor countries and beneficiaries, so the latter's needs are not necessarily directly considered in the policy design. All of this makes the unilateral preference programmes sub-optimal from the perspective of promoting preference utilisation and encouraging productive investment in the beneficiary countries. If there is no guarantee that the preferences will continue more than a few years (because the programme must be renewed by a legislature) then investment returns become more uncertain.

3. Preferential Rules of Origin: An Overview

Preferential RoO have two fundamental components, which constitute two separate channels by which firms' costs and competitiveness are affected: the specific criteria that allow a determination of whether a product is eligible for preferential treatment; and the procedural and documentary requirements that allow customs (and/or other competent authorities) to administer and control the application of the rules and enable preferential treatment. These elements are separate, and indeed are often dealt with in separate chapters of RTA texts – the former in the chapter dedicated to rules of origin, and the latter in a chapter on customs procedures. It is important to consider these issues separately because they generate different types of costs to firms seeking to make use of preferential treatment under RTAs.

The specific criteria define the product-level cost burden to firms of adapting sourcing patterns to qualify for tariff preferences. Most generally, the rules specify which material inputs must originate in one (or more) of the signatory countries. When these restrictions obligate firms to source certain inputs within the RTA but where cost considerations dictate sourcing from outside the region, then overall production costs rise and the eventual competitiveness of the firm's exports falls. Furthermore, the firm must balance the benefits of the tariff preferences against the added costs of compliance with the rules. If the latter exceed the former, the firm can choose to pay the applied tariff and forego the tariff preferences. However, if there is a significant applied tariff to be avoided, this may not be economically feasible either, the economic case for the exports is lost, and no trade is created by the preferences.

The procedural and documentation requirements, for their part, define the administrative cost burden to firms of proving compliance, and also impact the government's capacity to verify compliance. Just as compliance with the specific rules of origin can imply greater production costs to firms, demonstrating to customs that the products comply with the rules is not always cost-free. With some variation depending on the type of rules, this can involve maintaining the batch-level production records, identifying all materials used and the sourcing, costs, and origin status of those materials. Because customs is generally allowed to review and verify the origin of goods entered under preferences for around five years after the goods are released, depending on the

[5] While RTAs involving only developing countries have also proliferated rapidly, much attention has been directed to North-South RTAs, which link developed and developing countries. When well designed, these agreements can promote employment and technology transfer to the developing country participants, as well as provide policy anchors for economic and governance reforms. The key, of course, is that the agreements be well designed, and the RoO are a fundamental design feature.

[6] The issue of time limits and reauthorisation requirements will be addressed below

agreement, firms that seek to benefit from preference must be able to produce these records on demand at any point in that period.

This is not costless, and also generates a margin of uncertainty in the firm's planning, as there is a contingent liability of back-tariffs, penalties, and further administrative barriers if a verification process is initiated. This cost and uncertainty is compounded in cases where supply chains are more complex, as firms must invest in greater supply chain transparency to ensure that all suppliers are providing correct and adequate origin-related information regarding the materials. Where there can be frequent turnover in suppliers, the costs are higher still. These realities explain why it is often large firms and multinational corporations that report the most difficulty complying with the rules of origin. Even though these companies have greater resources to manage origin, their challenges are exponentially greater. Research by the Asian Development Bank has found that in surveys of exporting firms, larger, older firms, firms with export experience in multiple markets, and firms with foreign ownership are all more likely to express concerns about RoO than are less-established small and medium-sized enterprises (SMEs) that do not tend to export to multiple markets.[7]

These factors, combined with the magnitude of the preference margin, impact the preference utilisation rate, which is a key indicator of the usefulness of an RTA to the companies of the signatory countries.[8] Unfortunately, data on preference utilisation is scarce in general, and what exists is often difficult to compare across countries and agreements.[9] These limitations notwithstanding, it is worth considering some of the figures that do exist. Existing literature finds utilisation rates that vary from three percent to 90 percent in different agreements at different times. In the United States, GSP utilisation is estimated at around 60 percent. Utilisation of preferences by African, Caribbean and Pacific (ACP) countries in the EU is around 50 percent. In Latin America, intra-regional preference utilisation is high, where data are available: IDB Firm surveys indicate that more than 80 percent of exporters use preferences, often under multiple agreements, and some countries show near 100 percent preference utilisation under most agreements. In Asia, utilisation has increased over the years. Australia shows FTA utilisation in imports in excess of 80 percent, while only 28 percent of exporter firms surveyed by the Asian Development Bank were using preferences. ASEAN utilisation has increased from around three percent to over 70 percent in some countries in 10 years.[10]

Fundamentally, if preference utilisation is low, then the design of the RTA is preventing the realisation of the benefits of the agreement, undermining the investment that went into the agreement's negotiation, and failing to provide the promised benefits. This will erode public confidence in RTAs and in trade more generally, potentially contributing to the increasing popular resistance to such agreements, and to trade liberalisation in general.

When considering the benefits to LDCs of RTAs, especially North-South RTAs with developed

[7] Masahiro Kawai and Ganesh Wignaraja. 2009. *The Asian "Noodle Bowl": Is It Serious for Business?* (ADBI Working Paper Series, No. 136, Tokyo).

[8] Indeed, the Canada-EU Trade agreement (CETA) includes this as a key performance indicator, for which data must be exchanged between the parties.

[9] Utilisation rates are calculated, most basically, as trade entering a country under specific RTA preferences as a share of total bilateral trade. However, the numerator and denominator can be adjusted to exclude trade in products not covered by the agreement (where no utilisation is possible) and/or trade where the most-favoured nation (MFN) tariff rate is zero (and there is no real preference to be had). Alternatively, utilisation rates can be derived from business surveys (to obtain the percentage of firms claiming to use preferences) or from the issuance of preferential origin certificates (which is indicative, but does not directly capture the treatment given in the importing country). The differing sources and methodologies make strict comparison of utilisation rates difficult.

countries, the challenge of preference utilisation is increased. First, one must consider the capacity of developing country firms to comply with the rules. This capacity may be limited either by the ability of SMEs to properly interpret and apply the rules, which are generally specified in a language that is not readily translated to business realities, and by the availability of the required material inputs from suppliers in the country of export. If these originating materials are not available locally, then firms must endeavour to obtain them from another eligible country, whether another RTA signatory or a country enabled under the unilateral preference programme. Because of trade frictions that are common in developing countries, establishing new suppliers that meet these conditions can be quite challenging.

Second, there are administrative challenges. Properly documenting that origin requirements have been met, whether to customs in the export market or to purchasers from other firms that will use these goods as inputs in subsequent production in the value chain, requires additional capabilities. Where this capacity is lacking, it becomes even more difficult to take advantage of preferences, without which the operation may not be economically justifiable.

Frequently the means by which developing countries benefit from preference programmes is for multi-national corporations (MNCs) to invest in establishing operations there that enable them to make use of cheaper labour to assemble products for export to developed countries (apparel is a common example, as will be discussed below). If the RoO are so permissive that essentially all materials may be imported for assembly, then there are no backward linkages to domestic production, and the benefits to be had are limited to the employment in the assembly operations. While such gains are not to be underestimated in the short term, there is less long-term gain than is desirable from such preference programmes. On the other hand, where rules err on the side of requiring more local content than can be feasibly obtained, there is no incentive for the up-front investment, and no meaningful gains in productivity can be expected to materialise. The challenge is therefore to find a balance that maximises the investment and development benefits without undermining the value of the preferences.

4. A Sectoral Approach to Rules of Origin: Patterns and Peculiarities

As currently applied in RTAs and preference programmes around the world, preferential RoO have different roles in different sectors. These are generally the product of the political economy around each sector in the specific signatory countries and/or preference grantors, but some generalities are observable.[11]

The RoO for primary products generally are based on the concept that such goods must be wholly obtained in the exporting country. For commodities like grains, minerals, or basic animal products (say, soybeans, iron ore, or frozen sides of beef), this is quite straightforward. These goods are cultivated, harvested, extracted, or born and raised in the territory of the exporting country, and inarguably qualify as originating (providing that their provenance can be properly documented).

[10] These figures mix calculations from many different data sources and estimation methodologies, and so are not strictly comparable, but give a general idea of the variation in preference utilisation. Figures for the United States GSP programme are from Hakobyan (2010) and EU ACP preference from Manchin (2006). Australian figures are from Pomfret et al. (2010). ADB firm survey results from Kawai and Wignaraja (2008). ASEAN figures from Baldwin (2008) and Cirivithat (2008).

[11] This section partially draws on Estevadeordal et al. (2010) "Multilateralizing Rules of Origin" in Baldwin and Low (eds.) Multilateralising Regionalism. Cambridge University Press.

For processed food and beverages, the combination of ingredients can be somewhat more complicated to document, but generally speaking so long as the primary ingredients are originating, the good is likely to qualify. The key exceptions here are products containing sugar or dairy products. Because these two goods are frequently highly protected, even – especially – in developed country markets, the RoO are often written to carefully preclude food products with high sugar or dairy content from benefitting from preferences unless the sugar and/or dairy used is originating in a qualifying country. This can cause difficulties in juices and other beverages, as well as baby formulas, chocolates and candies, and more processed dairy products like yoghurt or cheese. There is also some dichotomy for products like coffee and spices. In agreements among countries that have the climate to compete in these products, one frequently observes rules that require such goods to be wholly obtained. However, in RTAs that include developed countries that do not have such climates, it is not uncommon to see rules that grant origin for the precise roasting and/or blending of these goods into specific, often branded, products, regardless of the origin of the raw materials.[12]

One primary sector where the rules are significantly more complicated is fisheries. Because modern industrial fishing is quite capital-intensive, firms that engage in the harvest of fisheries may not necessarily have any relation to the country in whose territorial waters they work. Therefore, in some cases the rules of origin for such fish focus more on the nationality of the ship's registration, or of its crew and/or officers, whereas in other cases the rules focus on the territorial waters or exclusive economic zones in which the fish are caught, or the territory in which the harvest is landed and processed. These alternatives have different implications for the beneficiary countries. Many LDCs with substantial territorial waters are too small or poor to have meaningful industrial fishing fleets, and may prefer to leverage these factor endowments by registering foreign ships, or by seeking investment in fish packing facilities on land. One illustrative case is the standard EU RoO for fish products, which requires that fish be caught by vessels registered and flagged in a member country, and have at least 50 percent ownership by naturals of, or a company based in a member. Because most developing countries located near important fisheries are unlikely to be able to field modern fishing fleets, they are in effect required to use only fish caught by EU ships, which gives a captive market to the EU fleet.[13] It is worth noting that the PACP-Interim Economic Partnership Agreement (EPA) (covering 14 Pacific ACP countries) has allowed a derogation from the standard rule, allowing most processing to confer origin regardless of the nationality of the ships that caught the fish.

The rules of origin for manufactured goods, generally speaking, require that the final substantial transformations in the production process to be carried out in the territory of a member country. This will usually involve a rule that allows for the importation of some parts or components of a final good from outside the RTA, provided that others are sourced within the agreement. The precise combination often varies across products and across agreements for a given product, but it is not uncommon for exporters to be permitted to choose between a rule that can be met by demonstrating that specific components are originating, and a rule that simply requires a determined fraction of the final good's value-added to arise from production processes carried out in the territory of a party. In a comparative analysis of agreements signed by the United States, the IDB found that the rule originally negotiated in the NAFTA was often replicated in subsequent agreements. However, in products where there was significant trade between

[12] An interesting example of this is the US-Colombia RTA that includes a tariff preference level (TPL) in Colombia for coffee roasted and blended in the United States, regardless of the origin of the beans, while for all coffee in excess of that quantity limit the beans must be originating, and in effect, Colombian.

[13] A single modern fishing vessel can cost upwards of US$20 million. The combined French and Spanish fishing fleets are capitalised in excess of US$1 billion.

the US and more recent partners before the agreements (in either direction), there was greater likelihood of a different rule being specified, generally tailored to enable those trade flows to benefit from preferences.[14]

An industry of importance to many developing countries is textiles and apparel. This importance derives from the particular structure of the industry, which has essentially three stages: fiber, textiles (yarn and fabric), and apparel. The first two stages — production of fiber and its manufacture into yarn and/or fabric — are both highly automated and very capital-intensive. The installation of production facilities for these stages requires considerable investment, and often their operation is also very energy-intensive. Companies generally locate these facilities in countries with inexpensive energy and reliable investment protections. The "cut and sew" process of apparel assembly, in contrast, is labour-intensive, requires less substantial capital investment, and is generally located based on the availability of inexpensive labour.

In RTAs among developing countries, it is common for these goods to have rules that are rather flexible, requiring only that fiber be processed into yarn, yarn into fabric, or fabric into apparel, for the resulting good. Most North-South agreements, however, often require double or triple transformations, such that apparel can only benefit from tariff preferences if it is assembled from originating fabric produced from originating yarn.

The political economy of these rules is quite simple. Developed countries often have substantial industries with investments in the capital-intensive production of yarns and fabrics, and use RTAs to require developing countries to source fabric from them in the labour-intensive process of apparel assembly. This model was most explicitly developed in the NAFTA RoO, but in the broad outlines it is clearly present in the GSP rules of most developed countries, and in their RTAs with developing countries.

[14] Cornejo and Harris (2006). Comparison of Rules of Origin in US Trade Agreements. mimeo.

This arrangement provides both challenges and opportunities for developing countries seeking to export apparel. While in the short term they are constrained by the requirement to purchase most inputs from the respective developed country partner, this arrangement also provides some incentive for direct investment in textile production capacity in the developing countries. While this investment attraction faces challenges of its own, such as improving the business climate and investment protection laws in the country, as well as scale challenges, there is at least anecdotal evidence that Central America and Vietnam have experienced notable investment in the textile industry as a result of preferences in developed countries and more restrictive rules of origin.

To a meaningful degree, this pattern shows how rules of origin can be used to promote development, if the preferences are sufficient and their administration is smart and flexible. Unilateral preference programmes (such as GSP or regionally focused ones like the AGOA in the United States) often provide fairly liberal rules to least developed countries, with unrestricted sourcing of yarns and fabrics, with the objective of promoting employment in the simplest assembly operations. Countries that successfully take advantage of these opportunities can be "graduated" to programmes with stricter rules — requiring the use of fabrics from either the preferences-granting country or the recipient creates an incentive for investment in textile production in the country. If the country is able to provide adequate governance and protection for the investment, this creates technology transfer and higher-wage employment. However, successful navigation of this path requires careful attention and timing, as well as increasing governance capacity in the developing country. Where that is lacking, "graduation" can simply mean a loss of competitiveness in the sector and lower employment.

The defined time horizons implicit in the need for legislatures to renew unilateral preference programmes can thus be considered useful in that they provide an opportunity to revise the operative incentives in a foreseeable manner. Of course, this advantage must be balanced against the costs of uncertainty of preferential market access. Policymakers must be responsive,

flexible, and predictable to maximise the benefits from this approach. Where these features are difficult to bring to bear, the benefits will be less. Developing countries can benefit from the sugar rush of an employment boost, but this is unstable and may not lead to the longer-term benefits of expanded investment.

Another industry with RoO worth mentioning is the auto sector. Because of the complexity of the supply chain, the size of the historical labour force in developed countries, and the overall size of the global industry, specific approaches have been devised to address the origin of these goods in RTAs. The NAFTA, building on the US-Canada FTA, was the first RTA to intensively address the opening of trade in the auto sector. Because of the complexity of the supply chain, negotiators avoided attempting to define rules that required specific components that must be originating and instead developed rules that require a fraction of the overall value-added to be derived from originating materials and processes. To this end, a specific value content calculation method (Net Cost) was derived, which takes fundamental aspects of the auto industry into account and provides for their accounting, such as the value of post-sales service contracts and the costs of advertising. This approach has been replicated in most subsequent agreements of the NAFTA countries, and in some agreements of other countries as well.

Last, it is worth mentioning that the RoO for the electronics sector are rapidly becoming irrelevant, as the multilateral Information Technology Agreement (ITA) has driven most-favoured nation (MFN) tariffs on many products in the sector to zero, such that RTAs do not provide any preference margin to be taken advantage of. Thus, there is no benefit to goods of complying with the respective rules of origin, and no additional compliance or administrative costs to be born.

5. Consolidation and Harmonisation Models

The fragmented, piecemeal nature of the RTA network calls for consolidation and harmonisation of the rules of origin. But what does that mean in practice? As discussed above, the RoO are generally the product of specific political economy realities and factor endowments in the signatory countries of each RTA. While political economy issues can evolve over time, factor endowments change more slowly if at all. Because these structural realities vary according to the specific groups of countries that sign each RTA, imposing identical rules on each agreement can lead to incompatibilities that reduce preference utilisation rather than promote it. It is therefore important to maintain the distinction between the preferential rules of origin – whose purpose is to grant access to preferential treatment within an RTA – and non-preferential rules whose purpose is to determine a specific country to which origin should be assigned. The former is context specific while the latter is a general definition that need not take context into account.

As an oversimplified example, take trade in instant coffee. If an RTA requires that instant coffee be produced from originating coffee beans, as long as the set of signatory countries includes at least one that has the capacity to produce coffee beans, then there is the possibility of instant coffee preferences being used. But if this rule of origin is then "harmonised" to RTAs that do not include countries with the capacity to produce coffee beans (say, because of climate), then this rule would cut off preferential trade in instant coffee. While it may make sense to objectively define instant coffee as originating in the country where the beans were harvested — really a philosophical definition of what should be the consideration (non-preferential rule) — for purposes of regulating access to preferences in an RTA this is less appropriate than adapting the rule to the practical realities of the signatories.[15]

A separate consideration that gives pause to plans for RoO harmonisation is that strict harmonisation builds in

rigidities that can hamper innovation. The requirement of identical rules in the Pan-European Cumulation System, for example, made it practically impossible for signatories to test new approaches in subsequent negotiations, as any deviation from the PECS rules would undermine the potential for cumulation in production for the EU market. While the gains from cumulation are significant, the unmeasurable value of flexibility is certainly a tradeoff.

How, then, to reduce the cost burden of operating under different rules with different partners? The additional dimension that must be considered when designing an approach to harmonisation of RoO in RTAs is the set of countries from which originating materials can be cumulated, or the "cumulation zone". In seeking simplification through harmonisation of rules, the applicable cumulation zone must also be adapted to avoid adverse effects from adopting rules that are not appropriate for the factor endowments[16] of the included countries. This modification of the cumulation zone is generally referred to as adoption of expanded cumulation, and there are many examples of its implementation in recent decades, both with and without success.

Returning to the two cost channels associated with RoO, expanding cumulation operates through the first channel to reduce the costs of compliance with the specific RoO applicable to a product. By expanding the set of countries from which "originating" materials can be sourced, the chances of including the supplier that the firm would have chosen without the origin restrictions increases, or at least the sourcing options are broadened. This allows firms more latitude to choose suppliers that meet their needs and help minimise costs and boost competitiveness while remaining eligible for tariff preferences in the RTA in question. The mega-regional agreements achieve this by uniting the countries of multiple agreements under a new regime and cumulation zone that establishes a single set of RoO. While this new origin regime is unlikely to be identical to the rules of any of the pre-existing constituent agreements, by negotiating a set of rules that are acceptable to the political economy and factor endowment restrictions in the group as a whole, this new regime can be a better fit for the economic realities of the participating countries, and better promote utilisation of the negotiated preferences. The TPP accomplishes this, as can the RCEP or the CFTA.[17]

The compliance burden can also be lessened by adopting rules[18] that are more permissive of non-originating materials. While this may risk undermining incentives to invest in RTA members to leverage preferences, this does not mean that rules should not be re-evaluated over time to ensure that they still meet the needs of the signatory countries without being unduly burdensome. IDB analysis of the modifications made to the NAFTA RoO over its 20-year history show that none of the modifications made have resulted in stricter rules. On the contrary, in the four rounds of revisions in every case the changes have been towards rules that allow greater participation of non-originating content. Mechanisms for revising the rules exist in most RTAs, and although regulatory certainty and transparency are to be encouraged, regular reforms can lead to a more open model of regionalism. There is also an argument that MFN tariffs have fallen globally, the need for strict rules of origin has receded. More active use of RTA administration mechanisms with the power to review

[15] That said, business surveys indicate that firms make less of a distinction, often considering preferential and non-preferential origin as all one problem, operationally. See Inama (2017) EUI research paper. Forthcoming.

[16] Conceptually, "factor endowments" here should also consider the pattern of industrial development in signatory countries, especially when most of the countries in a given RTA are small.

[17] The TTIP does not necessarily address this issue, as it is simple a new "bilateral" agreement between the USA and the EU. However, there are ways in which a TTIP agreement could include provisions that produce expanded cumulation with existing RTA partners that the two parties have in common, especially developing countries.

[18] Estevadeordal and Harris (2014) NAFTA Rules of Origin: Adaptation in North America and Emulation Abroad. mimeo.

RoO can probably be expected to result in more flexible rules over time.

Absent an over-arching mega-regional agreement, there are other approaches to expanded cumulation that can lead to progress without the difficult undertaking of large, multi-country negotiations. The Pacific Alliance in Latin America among Mexico, Colombia, Peru, and Chile is in many ways a "mini-mega-regional." The four countries had bilateral agreements among them before negotiating a single origin regime that enabled expanded cumulation across all four. Canada's unilateral LDC regime enables cumulation from most all GSP beneficiaries, and its recent RTAs have included clauses calling on signatories to establish expanded cumulation with common third partners. Although this latter clause has not yet been put into force, the mechanism holds promise for future progress. The DR-CAFTA agreement between the USA, the Dominican Republic, and five countries of Central America enables expanded cumulation, subject to many conditions and quantitative restrictions, for woven apparel products. In this case, the Central American countries can use fabrics produced in Mexico to produce apparel to be exported to the United States without disqualifying that apparel from preferences. Trade statistics show that intra-Central America and Mexico-Central America trade in textiles and apparel increased nine-fold and seven-fold, respectively, since the agreement went into force, indicating that cumulation is indeed an important trade creating factor in this instance.

This type of product or sector specific expanded cumulation is becoming more common. The Canada-Colombia RTA enables the use of auto parts originating in the United States for production of vehicles, and of US or Mexican nylon filament yarn in textiles and apparel, among other examples in Latin America and Europe. All of this begs the question of precisely how these arrangements fit with the requirements of GATT Article XXIV. Enabling cumulation of these materials effectively grants some preferences to their producers, which may be inconsistent with the WTO's non-discrimination principle, nor by definition do such sectoral arrangements cover substantially all trade, as Article XXIV would require. This is not to say that these flexibilities are not appropriate. In most cases, the parties to these agreements also have RTAs in place with the countries whose materials may be cumulated. But there is sufficient ambiguity that clarification and guidance from the WTO would be very helpful.

The second channel through which rules of origin affect costs and competitiveness is administrative (certification of origin, documentation, etc.). The diversity, complexity, and poor design of these requirements and procedures can prevent companies whose products meet the rules of origin from being able to benefit from preferential tariff rates, leading to increased cost, increased lead time, and loss of competitiveness. This is particularly relevant for firms with fragmented and highly dynamic global value chains (GVCs). Here, too, there is the potential for harmonisation and simplification, but unlike for the definitions of the rules themselves, in this case harmonisation is less prone to imposing impractical rigidities.

The fundamental difficulty on the administrative side of rules of origin is that the origin of goods is determined by the sourcing decisions of producers, while the person responsible for payment of duties is the final importer. Between the former and the latter, there is vast scope for others to intervene, complicating the flow of information such that customs in the importing country can find inconsistencies in the documentation that make a clear determination of origin more challenging. This problem has grown as global production has become more decentralised in the development of global value chains.

Two issues can illustrate these difficulties: direct shipment requirements and third-party invoicing. Direct shipment requirements are straightforward in principle. In most agreements, to be eligible for preferences goods must not pass through a non-member when exported, unless they remain under customs control and do not undergo any processing in the non-member country. This ensures that no non-originating process or value is added subsequent to any claim of preferences. However, there is no standard way to document customs control and the absence of additional processing, leaving the customs officials in the country of final importation some discretion to determine whether the documentation provided is sufficient. This is especially burdensome for

SMEs whose shipments do not fill a standard shipping container. If their goods are consolidated with those of others, then the container may be trans-shipped, unloaded, and reloaded in non-member countries, generating just the sort of ambiguous documentation that can trigger concern.

Third party invoicing is an issue that is particularly important for companies with internationally fragmented production models where the flow of goods and the flow of invoices are often separated. Third-party invoicing provisions in RTAs allow for goods to be invoiced by companies from non-member countries, or by companies in RTA member countries other than the exporting country. When third-party invoicing is not explicitly allowed under the text of an FTA, local customs authorities can question and potentially reject preferential origin status when the goods are invoiced by an entity in a non-FTA member country. A simple illustration: a subcontracted manufacturer in an RTA-member would send an invoice to the principal company (which may or may not be in an RTA member), who would then invoice the customer in another member. Meanwhile, the goods are shipped directly from the manufacturer to the final country. Customs then must reconcile documents from different countries, where product descriptions and specifications may be drafted differently, and still find the goods eligible for preferences. In case of complications, there is generally the opportunity to issue unified documents, but the administrative burden and time delay can be costly, and can also potentially reveal commercially sensitive information. Even when shipment and invoicing complications are absent, it can be challenging for companies to be certain about how customs will evaluate their preferential origin claims. Origin determination can be technically complex, and requires high levels of competence in origin certificate issuing authorities and customs administrations. This uncertainty implies compliance risk, and the concomitant contingent liability for back-tariffs and potentially penalties. The result can be depressed preference utilisation rates, as firms may opt to pay the MFN tariffs to reduce or eliminate this risk.

Expanding cumulation and modernisation and reform of administrative procedures can lead to lower costs of compliance with RoO and promote preference utilisation. Where these apply to developing countries, greater opportunities to use preferences can boost competitiveness and encourage foreign investment that creates backward linkages and greater productivity. How to design and implement these mechanisms, however, is still a challenge.

6. Experimenting with New Approaches

Beyond the mega-regional negotiations and other smaller-scale projects to expand cumulation within subsets of RTAs, what other approaches to simplification, harmonisation, and consolidation of RoO might help to promote preference utilisation within RTAs, especially by exporters in developing countries? The reforms needed to resolve the difficulties identified in this Dialogue fall under the purview of different national and inter-governmental bodies. There are important contributions that can come from the WTO, the WCO, RTA administration committees, and national customs.

6.1. WTO Competence

One place to start is the WTO itself. Article XXIV of the GATT established the conditions for countries to deviate from the GATT's fundamental non-discrimination principle and create RTAs. As the vast proliferation of RTAs in the past two decades likely far exceeds the expectations of the drafters at the Havana Conference, the multilateral system could revisit this framework and contribute to increasing coherence in the way RoO are specified and applied. First and foremost, better guidance from the WTO on legality of different cumulation models is important. A wide variety of mechanisms for cumulation were described above, ranging from almost product-specific sourcing flexibilities all the way to the PECS where all RoO are locked in and all sectors are covered. Although none of these has ever been challenged at the WTO, guidance as to what models are clearly consistent

with Article XXIV would eliminate this concern for those countries seeking to lessen the restrictiveness of their rules through broader cumulation zones.

The most significant action on RTAs taken to date by the WTO is the establishment of the Transparency Mechanism, where member countries provide early announcement of RTAs under negotiation and later notify completed agreements. Members consider the notified RTAs based on factual presentations prepared by the WTO Secretariat. As currently designed, these presentations do not cover the product-specific rules of origin. Greater transparency in this matter would be gained by including the RoO in these reviews, and could create an incentive for more coherence, harmonisation, and simplification.

Earlier caveats regarding the necessity of respecting the factor endowments and political economy of specific RTA members notwithstanding, a comparison of the RoO to a benchmark for harmonisation could be helpful. The objective would not be to enforce common rules, but to establish a recommended default rule to apply when factor endowments and political economy pressures do not require a deviation. The rules provisionally agreed upon for non-preferential purposes under the 1995 Agreement on Rules of Origin would be an obvious starting point for this benchmark. The Secretariat could then provide simple measures of the degree to which each RTA's RoO are consistent with the benchmark.[19]

Another of the WTO Secretariat's current roles is to gather data on trade and tariffs. A logical extension would be to distinguish in the statistics between trade under RTA preferences and trade under MFN treatment. The resulting preference utilisation rates, while not strictly a measure of RoO impact, can serve as an objective measure of the degree to which RTAs are effectively enabling freer trade flows. As there is currently no broad, comparable database of utilisation rates, such an endeavour by the WTO would provide greater transparency on the role of RTAs in the global trade system.

Regarding more detailed RoO-related issues, best-endeavour statements regarding the application of RoO in unilateral preferences have appeared in recent ministerial declarations, though as yet these have not been reflected in significant reforms. The demonstrated interest in better coordination, consolidation, and simplification most likely require a more formal approach at the WTO, perhaps in the form of a plurilateral agreement modeled on the ITA or the Environmental Goods Agreement (EGA). In the line of the reforms suggested in the Bali and Nairobi declarations, additional adjustments to duty-free quota-free (DFQF) RoO that would promote utilisation could include de minimis flexibilities for the requirement of origin certificates, perhaps based on the MFN tariff level or potential duty value instead of the value of the transaction, and further flexibilities of value calculations such as the exclusion of transport costs.

6.2. World Customs Organization Competence

In the past the WTO and WCO have coordinated deeply on the issue of RoO. Under the Agreement on Rules of Origin (ARO), the WCO constituted the Secretariat for the Technical Committee on Rules of Origin, which was charged with the development of the harmonised non-preferential rules, and reported back to the Committee on Rules of Origin at the WTO. Independently, the WCO has developed a number of preferential origin reference tools for customs, including comparative studies and guidelines on certification and verification of origin, among others.

[19] Several authors have developed methodologies for comparing product-level RoO. UNCTAD/UNU has compared the harmonised non-preferential rules (HOR) to those of several agreements. Estevadeordal et al. (2009), Medalla (2015) *Towards an Enabling Set of Rules of Origin for the Regional Comprehensive Economic Partnership*, ERIA Discussion Paper Series), and other have done similar RoO comparison work.

The Revised Kyoto Convention (RKC) of the WCO addresses RoO by encouraging/requiring that they be defined on a positive standard (that is, identifying what conditions confer originating status as opposed to enumerating circumstances that do not result in originating goods). This precedent could be leveraged to provide additional guidance on RoO. Harmonisation of technical language can only help to improve transparency, and on a more substantive level, harmonisation of the calculation methods for value-added requirements could greatly simplify operations for firms operating across multiple RTAs.

One of the major sources of uncertainty is the evaluation customs will give of a firm's origin information, both at time of entry and in any post-entry verification. The uniform regulations developed in North America for the application of the NAFTA RoO have been a valuable contribution, guiding both firms' preparation and customs' interpretation. The WCO would be an appropriate forum for establishing a sort of "global uniform regulations."[20] This mechanism can also be useful for seeking standardisation of documentary evidence of preferential RoO compliance. While this is not a panacea, broader coherence on preferential origin can only be to the good.

Also, the entire discipline of trade facilitation needs to address preferential RoO. As discussed above, both the origin criteria and the compliance demonstration procedures can increase costs to firms. The interface with customs can be made more efficient and predictable, lowering both costs and uncertainty. Preferential origin needs to be better integrated into electronic single windows, especially as these are made interoperable among countries, so as to give substance to customs cooperation commitments undertaken in RTAs. Additionally, the growth of "Authorized Economic Operator" systems should allow frequent exporters to demonstrate origin once and then be granted expedited treatment until such time as other risk management processes indicate a need for review.

6.3. National and RTA-Specific Competence

Fundamentally, RoO provisions are established within each RTA, and it is the responsibility of the signatory countries to modernise and reform these provisions as best practices emerge and evolve. Thus, while the development of international standards and guidelines will provide a roadmap for harmonisation and simplification of RoO, it is the administrative committees established by each RTA that will be responsible for translating those standards into revised agreement provisions, and then national customs administrations for their effective implementation.

Independent of any evolving international standards, the institutional mechanisms of existing RTAs must seek ways to modernise their origin regimes to better facilitate contemporary distributed production models. In a best case scenario, there would be coordination among RTAs to both identify best practices in this area, and to promote harmonisation of procedures and elements of documentation. But even in isolation, the committees established to oversee the RoO should be more active in taking feedback from, and then collaborating[21] with the private sector on ways to make origin compliance and documentation less burdensome and costly, addressing the issues listed here and others.

[20] The legal mechanism by which such regulations would become binding for national application is not clear, whether as a revised or additional protocol to the RKC or some other stand-alone agreement.

[21] For example, the FTA-Pass programme in South Korea facilitates communication of origin information between MNCs, their SME suppliers, and customs, increasing certainty around origin analysis and determination.

7. Issues Needing Further Study

Many of the suggestions mentioned here require further study to identify the most effective path forward. The ambiguity of the Article XXIV consistence of different models of expanded cumulation requires organised analysis by international trade law experts, along with recommendations on technical approaches to expanded coverage of RoO in the Transparency Mechanism and the possibility of establishing a plurilateral agreement on RoO. Additionally, mechanisms need to be identified for furthering the work done by to WCO to promote best practices in preferential RoO administration.

Outside the inter-governmental organisations, a possible tool for helping the private sector address the difficulties of RoO compliance would be the development of International Organization for Standardization (ISO) standards on origin information management. Firms obtaining certification under such standards would then have greater certainty that their practices would be acceptable to customs. Such standards could take as a starting point the work already done by the WCO, but additional work is needed to translate this to certifiable processes and procedures to be adopted by firms.

Advances in information technology can also contribute to mitigating the challenges of preference utilisation. The majority of product specific rules of origin are based on changes in tariff classification, which emphasises the need to properly classify goods and their inputs under the Harmonized System. Several artificial intelligence systems have been developed to facilitate classification, and their broader dissemination and use can reduce the uncertainty that such rules are correctly applied. For certification, blockchain technology holds the potential for providing secure information on the origin of goods and materials, without disintermediating suppliers and distributors.

As the reality of GVCs makes it clear that services trade is fundamentally embodied in goods trade, it is becoming necessary to consider what rules of origin for services might look like. Even if only for non-preferential statistical purposes, identifying the origin of services will become increasingly relevant, and merits careful analysis.

Finally, as GVCs provide greater economic interconnectedness, is there a role for RoO in seeking to moderate the environmental impact of global trade? Many RTAs include provisions for the originating status of recovered materials in remanufactured products. A more coherent global approach to this issue could provide greater clarity and promote more utilisation of such materials. Separate from the case of remanufactured goods, RoO can be adapted to encourage, or at least permit, the use of recycled materials without jeopardising eligibility for preferential treatment. This could reduce both waste and costs.

8. Conclusions

The role of preferential trade in the global trading system seems to be reaching an inflection point, as a large majority of countries' largest trading relationships are governed by RTAs or soon may be. Economic Partnership Agreements (EPAs) cover one quarter of EU imports, and FTAs cover a third of US imports. Regionalism is thus as large a factor in global trade governance as is multilateralism, creating a powerful argument for bringing the two into a more coherent relationship in order to provide greater transparency and predictability to trade rules. This is especially true for exporters in LDCs with the most to gain from better engagement with the system. The rules of origin in preferential programmes can limit their benefits, but can also be leveraged to promote greater investment, depending on their design and implementation. Greater understanding of these impacts can lead to greater benefits through informed policy design. There is a clear need in the global trade system for leadership on the definition and the promulgation of binding standards for the operation of preferential origin. Hopefully the suggestions discussed in this Dialogue may inform and promote action on this issue.

Jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the Inter-American Development Bank (IDB), the RTA Exchange works in the interest of the sharing of ideas, experiences to date and best practices to harvest innovation from RTAs and leverage lessons learned towards progress at the multilateral level. Conceived in the context of the E15 Initiative, the RTA Exchange creates a space where stakeholders can access the collective international knowledge on RTAs and engage in dialogue on RTA-related policy issues.