Research Paper on Rules of Origin Certification

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The Cost of Certification: Findings from Surveys

• According to ITC survey, the shares of NTM cases related to RoO is as high as 22%.

• Exporters/importers quote high costs, delays, and arbitrary practices.

• JETRO and ADB surveys also show that firms are hesitant in using FTAs in Asia.

• Most of the NTM cases apparently relates to the country of exportation: Difficulties in getting the COs in the home country or supplier’s declarations.
Cost of Certification: Findings from Surveys *cntd.*

- Most recently, reports of difficulties with importers declarations (Japan-EU FTA)
- However, there are unclear indications about the reasons for the delays and high cost reported by firms
- It is difficult to address and solve a problem, especially in case of RoO, if one does not precisely know the cause
The Issue at Stake

• With exception of the Annex K of Revised Kyoto Convention, there are no multilateral rules for the administration of RoO i.e., certification and verifications.

• There have been attempts to regulate the substance of rules of origin most notably the WTO Agreement on Rules of origin.

• However, similar efforts have not been carried out for the administration of rules of origin.

• Most studies and research focus on the substance of rules of origin but not on the administrative aspects.
## Literature on Compliance Costs of RoO in FTAs

<table>
<thead>
<tr>
<th>Author</th>
<th>Measures Applied</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrère &amp; De Melo (2004)</td>
<td>Compliance costs estimated by non-parametric model</td>
<td>Approximately 10% preference margin is required to compensate the compliance costs of the Mexican exporters</td>
</tr>
<tr>
<td>Cadot et al. (2005)</td>
<td>The impact of compliance costs of RoO on the border price of textile and apparel products</td>
<td>The border price of Mexican products has risen 12% to compensate the compliance costs of RoO under NAFTA</td>
</tr>
<tr>
<td>Anson et al. (2005)</td>
<td>Compliance costs using revealed preferences argument employing non-parametric model</td>
<td>NAFTA average compliance costs are around 6%</td>
</tr>
<tr>
<td>Carrere and de Melo (2006)</td>
<td>Using double censored Tobit Estimation technique to find the compliance costs</td>
<td>The compliance costs of RoO is 5.6% for textile and apparel while it is 3.2% for all final products on average</td>
</tr>
<tr>
<td>Manchin (2006)</td>
<td>Heckman sample selection and endogenous threshold estimation</td>
<td>Compliance cost in African, Caribbean, and Pacific (ACP) is between 4% to 4.5%</td>
</tr>
<tr>
<td>Cadot et al. (2006)</td>
<td>Using a synthetic index called R-Index to estimate</td>
<td>Approximately, the compliance costs of PANEURO’s RoO is 8.0% and that of NAFTA is 6.8% of trade amount</td>
</tr>
<tr>
<td>Hayakawa (2011)</td>
<td>Compliance costs using a gravity equation</td>
<td>Compliance cost are lower using gravity equation approach, which is around 3% on average</td>
</tr>
<tr>
<td>Centre for Economic Policy Research (2013)</td>
<td>Compliance costs using current estimates</td>
<td>“British firms would be exposed to a combination of administrative and compliance costs linked to rules of origin, ranging … from 4 percent to perhaps 15 percent of the cost of goods sold.”</td>
</tr>
</tbody>
</table>
Way Forward on Proof of Origin

• The examined surveys and studies, while useful, have not provided a valid basis for governments to act towards reforms and convergence on RoO Certification

• Surveys results and utilization rates provide evidence that there is a problem but do not identify specific practices related to proof of origin that are (or are not) trade facilitating

• Econometric studies quantify costs of compliance lumping together substantive and certification requirements, which needs to be disentangled

• There is a need for research to identify best practices and lessons learned to provide solid basis for government action towards trade facilitation
New Research on Proof of Origin and Trade Facilitation
Identifying Main Methods of Proof of Origin

1. Certificate of origin stamped and signed by Certifying Authorities (Many South-South PTAs)

2. Certificate of origin signed by exporter (e.g., Canada GSP)

3. Statement of origin made by the exporter (e.g., EU-FTAs)

4. Statement of origin by an approved exporter (e.g., EU–ASEAN FTAs)

5. Registered exporter (REX) (e.g., EU GSP and some EU FTAs)

6. Importer declaration (Mainly US but also CP-TPP and RCEP)

7. E-COs (Many initiatives…)

8. E-COs via Single Windows (e.g., ATIGA, 4 AMS only)

- WCO Guideline 4 on Certification of Origin (July 2014 - updated in June 2018) and WTO Nairobi Ministerial Decision encourage self certification or Minimum data requirements
Main Differences in Methods of Proof of Origin

- The degree of involvement of the certifying authorities (CAs) marks the difference among the various methods.
- CAs are in most cases Government Authorities
- The most intrusive, traditional method is the CO stamped and signed by CAs
- The most liberal is the statement by the exporter or the importer where the CAs are only involved in case of ex-post verification and monitoring
- Then there are varieties of methods where the degree of involvement of the CAs vary
  - The E-COs and the ASEAN single window is managed by CAs.
  - Ongoing efforts in Africa RECs-COMESA E-certificate
  - Philippines Customs: A 15 pages memo to start operationalization of ASEAN-E-COs …
- The real question is what is more trade facilitating: E-COs or Self certification?
Other Issues Exist in Determining Trade Facilitation of Proof of Origin

- Documentary evidence of direct shipment
- Supplier’s declarations
- Third country invoice
- Accounting segregation
- Back-to-back certificate of origin and replacement of COs
- How Single windows are dealing with these ancillary requirements?
- It seems that ASEAN single window is equipped to take care of some aspects but not all…
Developing a Methodology of Measuring Transparency and Trade Facilitation of Proof of origin in FTAs
1. Mapping Procedures - Certificates of Origin: Format and Distribution

<table>
<thead>
<tr>
<th></th>
<th>ATIGA</th>
<th>AANZFTA</th>
<th>AIFTA</th>
<th>ACFTA</th>
<th>AJCEP</th>
<th>AKFTA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Form Name</strong></td>
<td>Form D or self declaration or E-COs</td>
<td>Form AANZ</td>
<td>Form AI</td>
<td>Form E</td>
<td>Form AJ</td>
<td>Form AK</td>
</tr>
<tr>
<td><strong>Specimen</strong></td>
<td>Annex 7 of ATIGA</td>
<td>Attachment of AANZFTA; Minimum data requirements in Appendix 2</td>
<td>Attachment D of AIFTA</td>
<td>Attachment Appendix 1 of 2015 Amendment to ACFTA</td>
<td>Attachment to Annex 4 of AJCEP, revised version published 2014</td>
<td>Attachment of AKFTA</td>
</tr>
<tr>
<td><strong>Format</strong></td>
<td>ISO A4 size white paper</td>
<td>Hardcopy; in English</td>
<td>ISO A4 size white paper; in English</td>
<td>ISO A4 size paper; in English</td>
<td>In English</td>
<td>A4 paper; in English</td>
</tr>
<tr>
<td><strong>Copies</strong></td>
<td>1 original; 2 carbon copies</td>
<td>1 original; 2 copies</td>
<td>1 original; 3 copies</td>
<td>1 original; 2 copies</td>
<td>In the case of a Party which is an ASEAN Member State: 1 original, 2 copies; In the case of Japan: original only</td>
<td>1 original; 2 copies; The colours of the original and the copies shall be mutually agreed upon by the parties.</td>
</tr>
</tbody>
</table>
## 2. Codifying Procedures

Starting from the most basic requirements

<table>
<thead>
<tr>
<th>CO</th>
<th>Certificate of Origin</th>
</tr>
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<tbody>
<tr>
<td>CO1</td>
<td>Paper free</td>
</tr>
<tr>
<td>CO2</td>
<td>Specific paper quality</td>
</tr>
<tr>
<td>CO3</td>
<td>With stamps only</td>
</tr>
<tr>
<td>CO4</td>
<td>With stamps and signatures</td>
</tr>
</tbody>
</table>

Then moving to the most complex

<table>
<thead>
<tr>
<th>TC</th>
<th>Third country invoicing</th>
</tr>
</thead>
<tbody>
<tr>
<td>TC1</td>
<td>3 or less conditions</td>
</tr>
<tr>
<td>TC2</td>
<td>More than 3 conditions</td>
</tr>
</tbody>
</table>
### 3. Assigning Values to Codified Procedures: Certificate of Origin

<table>
<thead>
<tr>
<th>Certification of Origin (CO)</th>
<th>RoO Certification</th>
<th>Number of Entries in CO</th>
<th>Number Copies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Description</td>
<td>Score</td>
<td>Criteria</td>
<td>Score</td>
</tr>
<tr>
<td>Paper Free (CO1)</td>
<td></td>
<td>+8</td>
<td>Less/equal 12</td>
<td>+1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>More than 12</td>
<td>-1</td>
</tr>
<tr>
<td>Specific Paper Quality (CO2)</td>
<td></td>
<td>+3</td>
<td>Less/equal 12</td>
<td>+1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>More than 12</td>
<td>-2</td>
</tr>
<tr>
<td>With stamps only (CO3)</td>
<td></td>
<td>-3</td>
<td>Less/equal 12</td>
<td>+0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>More than 12</td>
<td>-2</td>
</tr>
<tr>
<td>With stamps and signatures (CO4)</td>
<td></td>
<td>-6</td>
<td>Less/equal 12</td>
<td>+0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>More than 12</td>
<td>-2</td>
</tr>
</tbody>
</table>
Work Ahead

• More research and survey at firm-level will be carried out starting in Vietnam in cooperation with ADB as Vietnam is the Asian country that has a wide variety of FTAs with different methods of proof of origin.

• Aim of the research is to identify best practices to get to convergence and trade facilitation on proof of origin.

• Getting Governments and administrations to introduce trade facilitation reforms, eventually using mega-regional FTAs and Annex K updating.

• RCEP implementation is already facing a number of challenges…

• See on this topic ADB/UNCTAD present and forthcoming research.
Resources


- The Utilization of Trade Preferences by COMESA Member States: Intra-regional Trade and North-South Trade (2023)


- Compendium of technical notes prepared for the LDC WTO group on preferential rules of origin (2020). UNCTAD/ALDC/2020/6
Additional Resources I

• **Crivelli, P. and S. Inama. 2021.** “Improving market for LDCs: The impact of the EU Reform of Rules of Origin on Utilization Rates and Trade Flows under the Everything But Arms Initiative (EBA)”, *UN LDC5 Conference paper*  

  [https://cadmus.eui.eu/handle/1814/70396](https://cadmus.eui.eu/handle/1814/70396)

  [https://doi.org/10.54648/gtcj2020086](https://doi.org/10.54648/gtcj2020086)
Additional Resources II

- **UNCTAD website of utilization rates** of trade preferences granted by QUAD countries available at: gsp.unctad.org

- **UNCTAD website** of Integrated trade statistics, tariff offers and rules of origin under the African Continental Free Trade Area available at: [https://afcfta.unctad.org/](https://afcfta.unctad.org/)

- **UNCTAD-EUI platform of experts**, researchers, practitioners, government officials and the private sector to discuss developments in the area of RoO and URs on an annual basis (June 2019, February 2020, October 2021)
Additional Resources III

- Ongoing cooperation with researchers from the Asian Development Bank on studying Rules of Origin and URs in the Asian region and especially mega-regionals (CPTPP and RCEP).