WTO OMC

Certification of Origin and the utilization of trade preferences by LDCs

Overview of recent research by the WTO Secretariat

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“PROOFS OF ORIGIN” IN THE BALI AND NAIROBI MINISTERIAL DECISIONS

The Bali (2013) Ministerial Decision

“With regard to certification of rules of origin, whenever possible, self-certification may be recognized. Mutual customs cooperation and monitoring could complement compliance and risk-management measures."

The Nairobi (2015) Ministerial Decision

“With a view to reducing the administrative burden related to documentary and procedural requirements related to origin, Preference-granting Members shall […] Consider other measures to further streamline customs procedures, such as minimizing documentation requirements for small consignments or allowing for self-certification."

Third Party Certification and Self-Certification of origin

Third-party certification

- The origin of the goods is attested by a designated authority: Ministry of Trade, Customs, Chambers of Commerce
- "certificate of origin”

- Businesses must apply for a certificate and hence deal with paperwork (commercial invoices, contracts with manufacturers, packing lists, bill of lading, etc).
- Fees, delays and costs may dissuade businesses from applying for (claiming) preferences
- But businesses don’t need to handle rules of origin, they can rely on the know-how of the certifying authority
- The operator must keep proofs and records and be prepared for a verification

Self-certification

- The origin of the goods is attested by the producer or exporter of the goods (or, in some cases, the importer)
- “statement, declaration, invoice declaration”

- Economic operators don’t need to apply for a trade document and don’t need to submit documents or pay fees.
- However, businesses must internalize knowledge about rules of origin: identify the applicable rule, interpret and understand it
- The fear of verification and penalties may cause businesses to prefer not claiming a preference
- The operator must keep proofs and records and be prepared for a verification

The main differentiating factor: who carries the responsibility for attesting origin

Costs related to the certification of origin

Different research papers attempted to estimate the costs associated with the utilization of trade preferences:

Author	Main Findings
Carrère & De Melo (2004)	A ≈10% preference margin is required to compensate for compliance costs incurred by Mexican exporters
Cadot, et al. (2005)	The border price of Mexican products has risen 12% in order to compensate the compliance costs of rules of origin under NAFTA
Anson, et al. (2005)	Average compliance costs were estimated at around 6% under NAFTA
Carrère & De Melo (2006)	NAFTA compliance costs of rules of origin were estimated to be 5.6% for textile and apparel and 3.2% for all final products on average
Manchin (2006)	Compliance costs in African, Caribbean, and Pacific (ACP) are between 4% to 4.5%
Hayakawa (2011)	Average tariff equivalent of fixed costs for the use of a free trade agreement among all existing FTAs equals to 3.2%
Cherkashin et al. (2015)	Fixed costs estimated at 4,240$
Albert and Nilsson (2016)	Potential fixed costs range from €20 to €260.

USE OF TECHNOLOGIES TO REDUCE THE COSTS AND DELAYS ASSOCIATED WITH CERTIFICATION OF ORIGIN

E-CERTIFICATES

THE USE OF BLOCKCHAIN

E-certificates of origin:

- ✓ May speed up the application and processing of certificates of origin by reducing the paperwork involved in the manual processing of applications
- ✓ May eliminate travel and queueing time
- ✓ Can facilitate payment if application is online
- ✓ are equipped with specific security features that make them trustworthy: e.g. optical watermarking technology to distinguish originals from copies, digital rubber stamps, 2-D barcodes, QR codes, etc

There is no international standard or definition of "e-certificates of origin

Next Step: Use of distributed-ledger technology (commonly known as blockchains) in the certification process

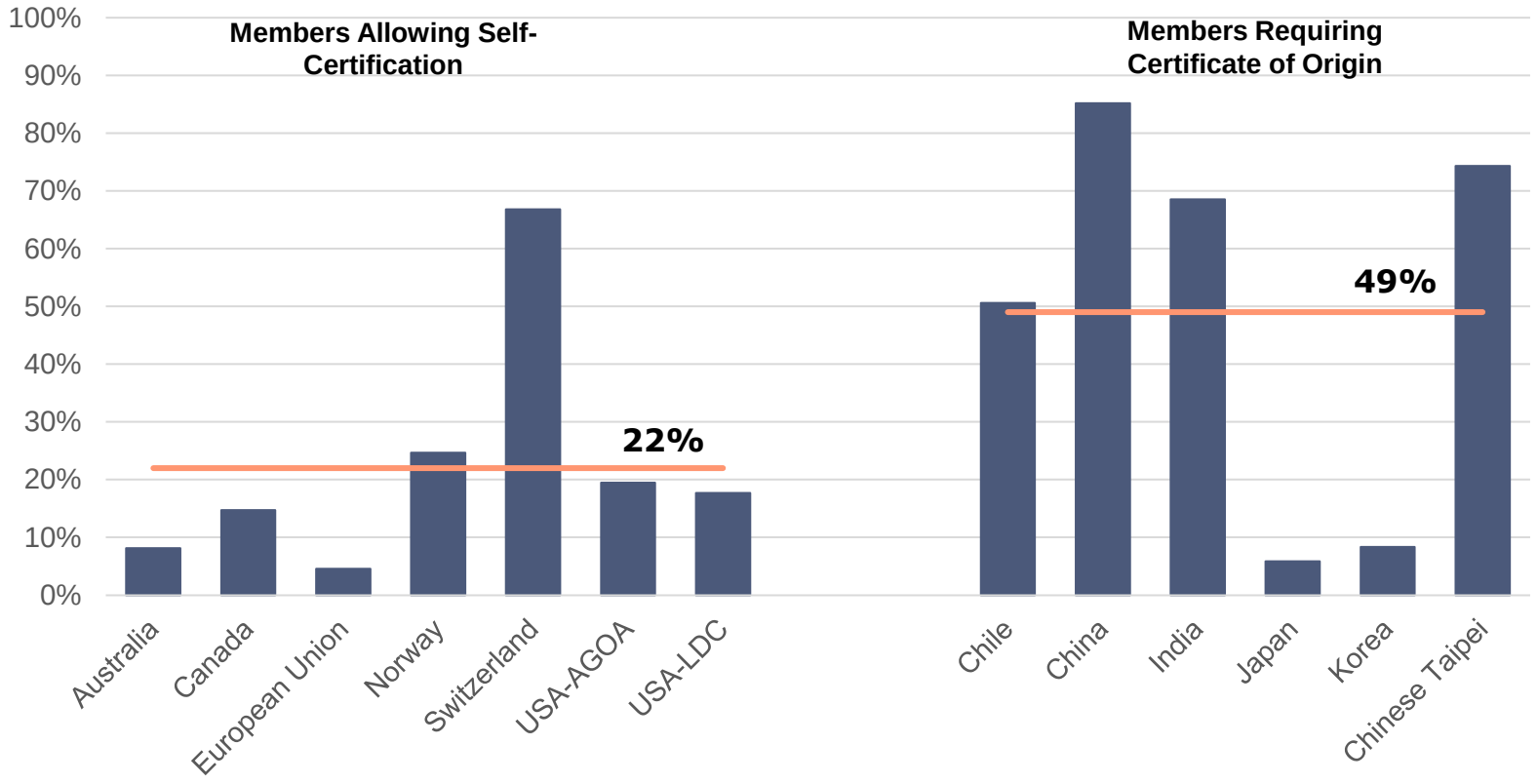
ESTIMATING THE IMPACT OF CERTIFICATION OF ORIGIN ON THE UTILIZATION OF TRADE PREFERENCES BY LDCS

Group 1 – PTAs allowing self-certification (in all or most cases)

Australia; Canada; European Union; Switzerland; Norway; US (LDC); US (AGOA);

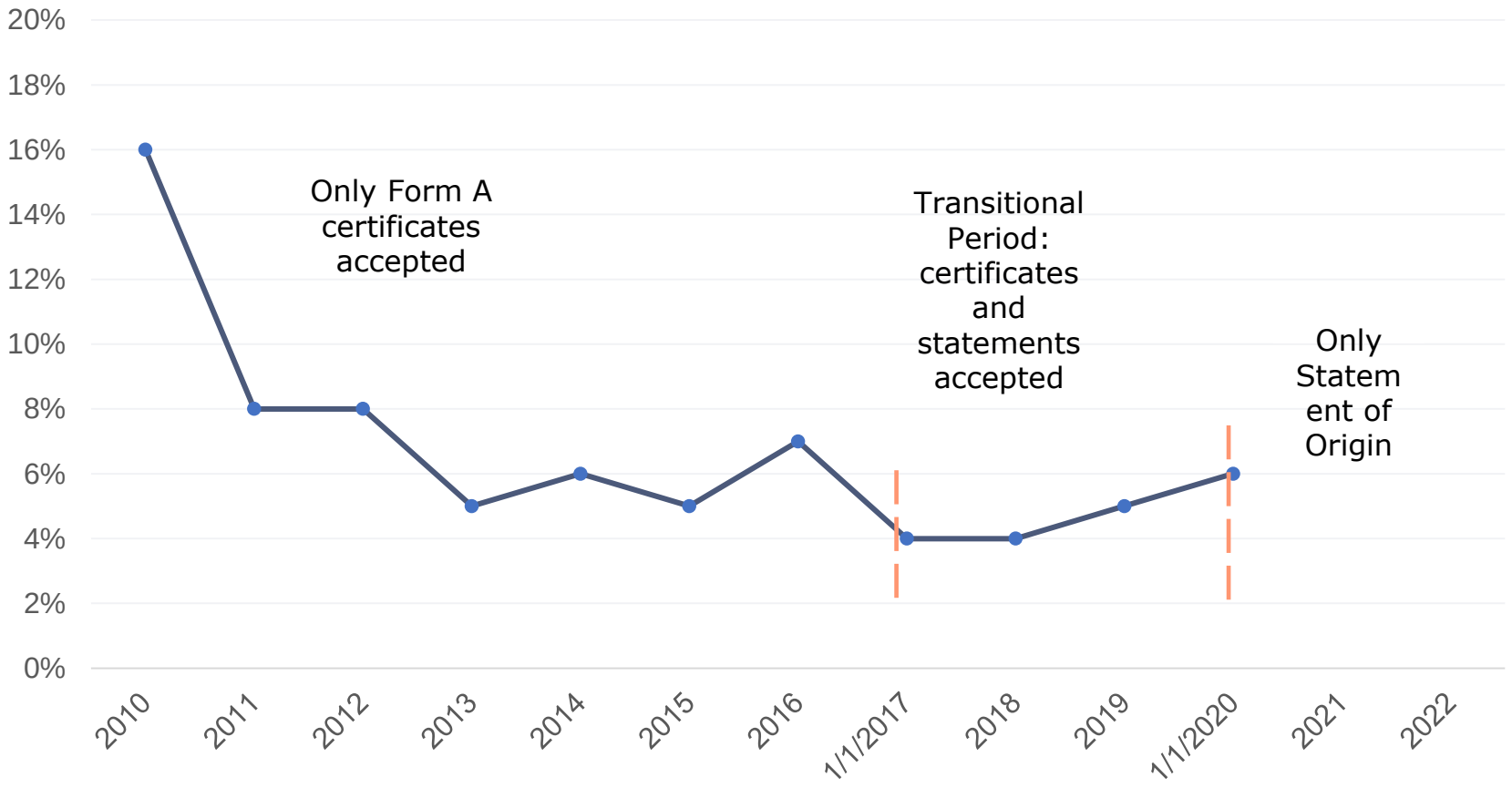
Group 2 – PTAs requiring a certificate of origin:

Chile; China; India; Japan; Republic of Korea; Chinese Taipei.



Average preference *under*utilization (2015-2020) for preference-granting Members requiring a certificate of origin vs preference-granting Members allowing self-certification

Effects of EU REX System

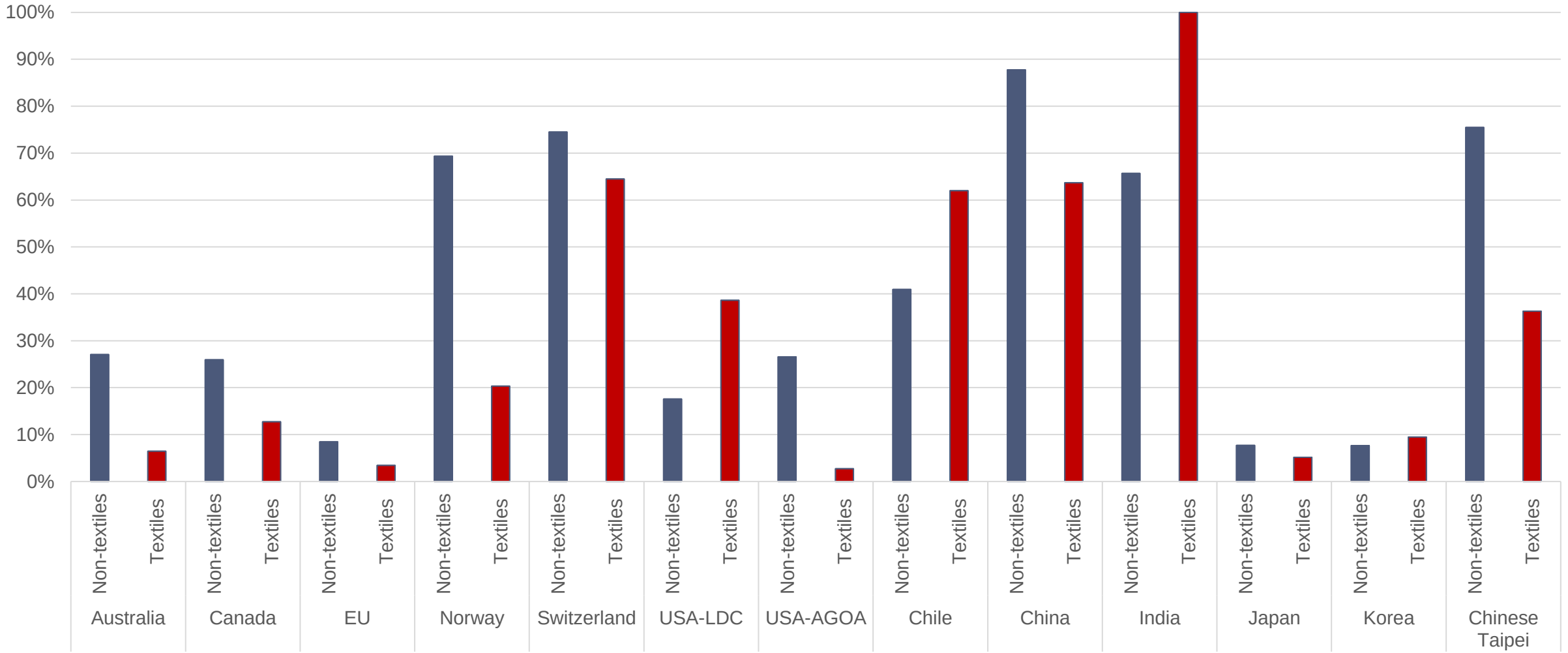


Preference *under*utilization in the EU (2010-2020)

- The EU moved away from a third-party certification system and gradually introduced self-certification (since 1/1/2020 only statements are accepted)
- However, the shift to self-certification does not seem to have had significant impact on the overall EU GSP *under*utilization rates.

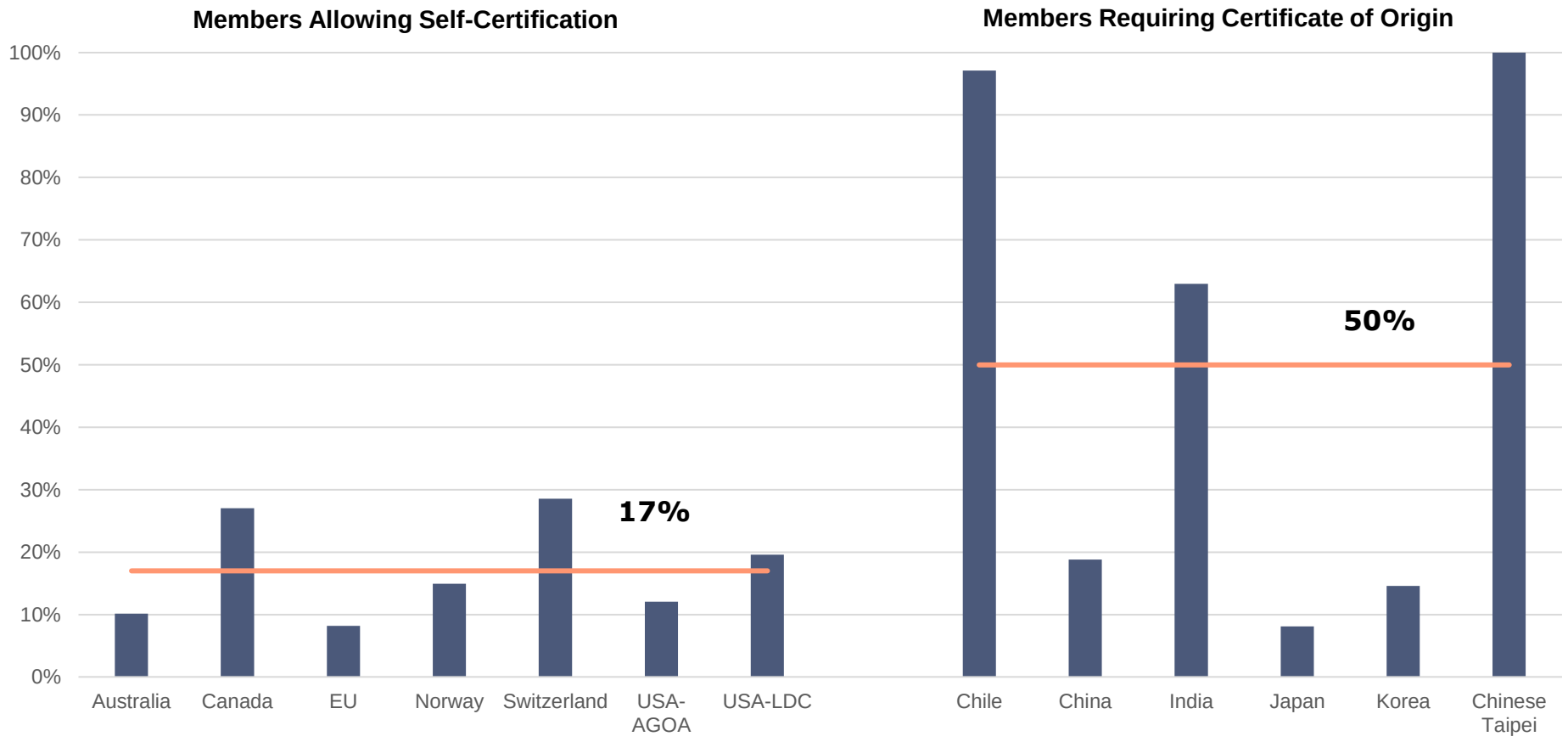
Preference *under*utilization: textile products vs non-textile products (2015-2020 average, %)

Imports of textile products are subject to third-party certification in Canada and the US whereas other imports are allowed to use self-certification

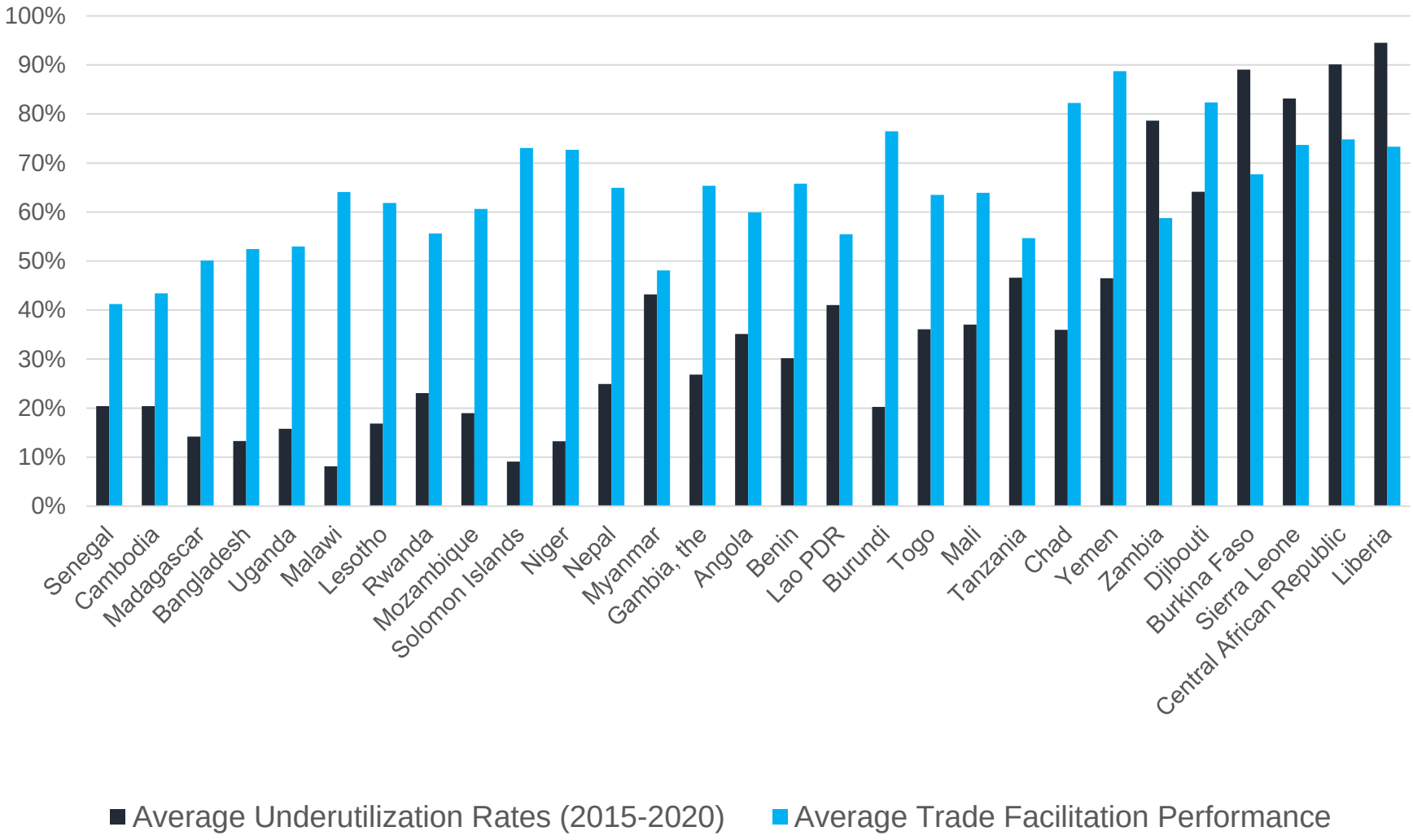


Preference underutilization rates for agricultural goods: self-certification and third-party certification (2015-2020)

- To isolate the effect of certification, sectoral approach was used (wholly obtained goods): they confirmed the overall results (self-certification is linked with better utilization but this is not a universal finding)



Procedures to issue certificates in LDCs may also a direct impact on their ability to utilize trade preferences



Trade Facilitation indicators

This graph correlates the OECD Trade Facilitation Indicators with average underutilization rates for selected LDCs.

LDCs with best trade facilitation scores tend to have lower underutilization rates (although this is not a clear or a universal pattern)

Conclusions and Recommendations

- Self-certification seems to have a trade-facilitating impact: it is linked to better preference utilization when compared to third-party certification
- However, this is not an universal observation (it may be linked to the composition of the groups, and was not confirmed by more detailed calculations (regarding Canada and the US and the EU))
- In addition to examining the requirements of preference-granting Members (the importing market), it is also important to better understand the conditions under which certificates of origin can be obtained in LDC beneficiaries (the exporting country): simple and fast procedures are likely to influence the decision by businesses to apply for / claim a preference or not
- It would be useful to gather more detailed information about local requirements for the application for and issuance of certificates of origin in LDCs.
- It would be useful to compare costs, processing times, and the paperwork involved in different LDCs to assess whether differences in such requirements also translate in differences in preference utilization. For that, additional standardized and updated information would be needed.
- It would be useful to promote experience sharing about trade-facilitating projects related to the certification of origin (use of single windows, use of e-certificates, use of blockchain, etc.).

Thank you for your attention!

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